

# CREDIT INFORMATION REVIEW



**293**  
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## Important Financial Developments in 2003

### January

- Commercial banks advised to inform customers regarding the requirement of minimum balance at the time of opening savings bank accounts.
- Banks advised not to levy service charges/inspection charges on priority sector loans up to Rs. 25,000.
- Banks permitted to open savings bank accounts in the names of state government departments/bodies/agencies in respect of grants/subsidies released for implementation of various state sponsored programmes/schemes.
- To give one more opportunity to borrowers to come forward for settlement of their outstanding dues, the Reserve Bank issued fresh guidelines for compromise settlement of chronic non-performing assets (NPAs). The guidelines provided a simplified non-discretionary and non-discriminatory mechanism for compromise settlement of chronic NPAs below the prescribed value ceiling of Rs. 10 crore.
- The Reserve Bank decided to implement the Scheme of Prompt Corrective Action (PCA) initially for a period of one year. Banks advised to place the scheme before their board of directors and take necessary steps to ensure that they do not come within the PCA framework.
- To further mitigate the hardships of farmers in drought affected states, as a one time measure, the first year's deferred liability of interest on kharif loans, waived.
- Primary (urban) co-operative banks (UCBs) advised to invariably report to investigating agencies all cases of frauds on banks, whether committed by outsiders on their own or with the connivance of bank officials. Criminal cases also to be filed with courts, where appropriate, after the bank concludes that a fraud has been perpetrated.
- The overall ceiling of UCBs' loans/advances/other financial accommodation to their directors, their relatives and concerns in which their directors/directors' relatives have interest, all put together, brought down to 5 per cent of their total demand and time liabilities (DTL). The earlier ceiling was 10 per cent of DTL.
- UCBs permitted to prescribe reasonable service charges with the prior approval of their board of directors.
- Corporates raising external commercial borrowings (ECBs) permitted to retain the funds abroad in a bank account for their future foreign exchange requirements.

- NRIs/PIOs permitted to repatriate up to USD one million out of funds held in their NRO accounts/sale proceeds of assets.
- Indian companies allowed to retain abroad funds raised through American Depository Receipts (ADRs)/Global Depository Receipts (GDRs), for any period to meet their future foreign exchange requirements.
- Indian corporates which have set up overseas offices permitted to acquire immovable property outside India for their business as also for staff residential purposes with the Reserve Bank's prior permission.
- Resident individuals permitted to invest in equity of companies registered overseas subject to certain norms.
- The limit for advance remittances for import of services raised to USD 100,000 from USD 25,000 or its equivalent. Authorised dealers (ADs) advised to allow advance remittance for all admissible current account transactions up to USD 100,000 with the Reserve Bank's prior approval.
- Revised guidelines issued to banks for purchasing/discounting/negotiating/rediscounting of genuine commercial bills.

### February

- The Reserve Bank, in consultation with the Government of India, revised the guidelines on financing of infrastructure projects by banks and all-India financial institutions (FIs).
- To provide further flexibility to banks to source foreign currency funds for granting pre-shipment credit in foreign currency (PCFC/export bills abroad (EBR) to exporters, the Reserve Bank permitted banks to use borrowed foreign currency funds.
- Final guidelines on Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, issued. The guidelines/directions related to registration, owned fund, permissible business, operational structure, deployment of surplus funds, internal control system, prudential norms and disclosure requirements for Securitisation and Reconstruction Companies.
- Banks advised to implement the revised guidelines on consolidated accounting and other quantitative methods to facilitate consolidated supervision.
- Banks advised that the time period allowed to them for provisioning against the net debit balance in the inter-branch account would be reduced from one year to six months from the year ending March 31, 2004.

**March**

- The interest rate on domestic and ordinary non-resident savings deposits as well as savings deposits under non-resident (external) accounts scheme, reduced by 0.5 percentage point from 4.0 per cent to 3.5 per cent per annum from March 1, 2003.
- Repo rate under the liquidity adjustment facility reduced by 0.5 percentage point from 5.5 per cent to 5.0 per cent from March 3, 2003.
- The maximum rate of interest that non-banking finance companies (NBFCs), including chit fund companies and nidhi companies, can pay on their public deposits revised downwards from 12.5 per cent to 11 per cent per annum. The new rates which came into effect from March 4, 2003, are applicable only to fresh deposits and renewal of existing deposits.
- The automatic route of investments up to USD 100 million made available to Indian corporates with a proven track record for investments in overseas joint ventures or wholly owned subsidiaries even when the investment is not in the same core activity they are engaged in.
- Pre-payment of ECBs under the automatic route permitted without any limit. Earlier ceiling of USD 100 million removed.
- ADs delegated the authority of allowing the opening of temporary foreign currency accounts for organisers of international seminars, conferences, conventions, etc.
- Guidelines issued for uniform accounting of repo transactions.

**April**

- Banks allowed to issue guarantees favouring other banks/FIs/lending agencies for the loans extended by them provided they comply with certain conditions.
- The minimum rate of return payable by residuary non-banking companies (RNBCs) to their depositors revised to 3.5 per cent on daily deposits and to 5.0 per cent on other deposits effective from April 1, 2003.
- UCBs permitted to close unremunerative branches/extension counters without the Reserve Bank's prior permission. Such closure to be subject to certain conditions.
- UCBs advised to introduce concurrent audit with immediate effect.
- Banks permitted to extend credit/non-credit facilities to Indian joint ventures/wholly owned subsidiaries abroad up to 10 per cent of their unimpaired capital funds (Tier I and Tier II capital) as against the earlier ceiling of 5 per cent of their unimpaired Tier I capital.
- Regional rural banks (RRBs) advised to achieve a target of 60 per cent of their outstanding advances for priority sector lending as against the earlier target of 40 per cent. RRBs further advised that out of their total priority sector advances, at least 25 per cent (i.e., 15 per cent of the total outstanding advances) should be advanced to weaker sections.
- Units in special economic zones (SEZs) permitted to undertake job work abroad and export goods from that country itself, subject to certain conditions.
- ADs/housing finance institutions in India approved by the National Housing Bank permitted to grant loans to NRIs/PIOs for repairs/renovation/improvement of residential accommodation owned in India.
- Overseas investors making long-term investments, allowed to hedge their forex exposures in India, pending investment, by entering into forward sale contracts with banks in India.

- NRIs/OCBs allowed to book cross currency forward contracts to hedge the balances held in their FCNR (B) accounts. Contracts once cancelled, however, cannot be rebooked.
- Dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, eligible for advances under priority sector lending for agriculture.
- Banks permitted to extend direct finance to the housing sector up to Rs. 10 lakh in rural and semi-urban areas as part of priority sector lending.
- UCBs prohibited from extending loans and advances (both secured and unsecured) to their directors, their relatives and firms/concerns/companies in which they are interested. UCBs also advised not to renew or extend further, such advances sanctioned prior to April 29, 2003.

**May**

- Banks/FIs advised to adopt the Reserve Bank's broad guidelines and frame the Fair Practices Code regarding applications for loans and their processing, loan appraisal and terms/conditions, disbursement of loans, post disbursement supervision, etc.
- UCBs advised that advances granted by them up to Rs. 20 lakh to dealers in drip irrigation/sprinkler irrigation systems and agricultural machinery would be classified under 'indirect finance to agriculture' as part of priority sector lending.
- RRBs/sponsor banks of RRBs advised to subject their treasury transactions to a concurrent audit by internal auditors and to

**Monetary and Credit Policy for the year 2003-04**

- Inflationary situation on an average basis remained low except in the fourth quarter during 2002-03 despite drought.
- Lower increase in reserve money despite sharp increase in RBI's foreign currency assets.
- Money Supply ( $M_3$ ) remained within projected trajectory during 2002-03.
- Sustained increase in credit flow during 2002-03.
- Sharp reduction in interest rates of banks and in government and corporate papers.
- Government borrowing programme completed at lower interest cost with longer maturity. Interest rates on corporate paper are all time low.
- Reserves build up at a low effective cost without adding to external debt.
- Preference for a soft and flexible interest rate environment to continue.
- Bank Rate reduced by 0.25 percentage point.
- CRR reduced by 0.25 percentage point.
- Export credit refinance facility to continue.
- Interest rate on back-stop facility reduced.
- Transparent system to determine PLR of banks.
- Uniformity in maturity structure of repatriable foreign currency as well as rupee NRI deposits.
- Overseas investments liberalised and flexibility allowed to overseas investors for flow of FDI.
- Further measure to improve credit delivery mechanism to priority sector.
- Changes in prudential measures for UCBs in line with JPC recommendations.

place the results of their audit reports before their chief executives once every month.

- UCBs advised to disclose in their balance sheets information regarding payment of insurance premia to the Deposit Insurance and Credit Guarantee Corporation of India (DICGC).
- The time period for receipt of applications from borrowers for compromise settlements of loans up to Rs. 10 crore under the one-time settlement scheme, extended from April 30, 2003 to September 30, 2003. The date of processing the applications by banks extended from October 31, 2003 to December 31, 2003.
- Resident individuals maintaining a foreign currency account with an AD in India or a bank abroad, permitted to obtain international credit cards issued by overseas banks and other reputed agencies.
- Exporters permitted to open/hire warehouses abroad.

### June

- The Reserve Bank issued guidelines for money transfer service scheme (MTSS). MTSS is a quick and easy way of transferring personal remittances from abroad to beneficiaries in India.
- With a view to liberalising and simplifying the procedure for import, the Reserve Bank issued revised guidelines regarding import of goods, merchanting trade and import of currency.
- The cash reserve ratio (CRR) to be maintained by scheduled state co-operative banks (SSCBs) and RRBs on total DTL

### Mid-term Review of the Monetary and Credit Policy for the year 2003-04

- GDP growth in 2003-04 placed at 6.5-7.0 per cent.
- Inflation projected for policy purposes at 4.0-4.5 per cent.
- Money Supply ( $M_3$ ) growth within the projected level as envisaged in April.
- Rupee appreciated against US dollar but depreciated against Euro, Pound sterling and Japanese yen.
- Foreign Exchange reserves up by US \$ 17.2 billion since end-March to US \$ 92.6 billion by end-October 2003, and are at comfortable level.
- RIBs of US \$ 5.5 billion redeemed without any adverse impact on financial market and reserves.
- In the first half, in US dollar terms, exports are up by 10 per cent and import growth is high at 21.4 per cent.
- Bank Rate kept unchanged at 6 per cent.
- CRR kept unchanged at 4.5 per cent.
- IBA to advise banks on benchmark PLR.
- Measures to improve credit delivery to agriculture and small scale sectors.
- Flexibility to exporters in realisation of export proceeds and write off of overdues, up to 10 per cent of their export proceeds in a calendar year.
- Road map for financial institutions to adopt 90 days norm for recognition of loan impairment.
- RTGS system scheduled for introduction in January 2004.
- Select private banks authorised to conduct government business for public convenience.
- Payment of tax refunds through electronic clearing services (ECS) to be introduced.

reduced by 0.25 percentage points from 4.75 per cent to 4.50 per cent from the fortnight beginning June 14, 2003.

- The penal interest charged on the amount of shortfall in the maintenance of CRR by SSCBs and RRBs, revised from the close of business on April 29, 2003. The revised penal interest is, bank rate plus 3 percentage points (i.e., 9.00 per cent) or bank rate plus 5 percentage point (i.e., 11.00 per cent) depending on the duration of the shortfall.
- Units in domestic tariff area permitted to purchase foreign exchange from ADs for making payment towards goods supplied to them by units in SEZs.
- ADs permitted to make advance remittance up to USD 100,000 or its equivalent, without bank guarantee for import of goods into India.
- Additional instructions given to banks relating to cheques dishonoured on account of insufficient funds. Banks advised to deal severely with frequent dishonour of cheques and also to create a database of all dishonoured cheques of Rs. 1 crore and above which should form part of their MIS.

### July

- As a part of developing the derivative market in India and adding to the spectrum of hedge products available to residents and non-residents for hedging currency exposures, the Reserve Bank permitted foreign currency rupee options.
- UCBs which are not members of the negotiated dealing system (NDS)-Clearing Corporation of India Ltd., (CCIL) system, directed to undertake their transactions in government securities through gilt account/demat account maintained with an NDS member.
- The limits for release of foreign exchange for employment, emigration, maintenance of close relatives, education and medical treatment abroad, enhanced to USD 100,000 for each category.
- Regulatory framework of NBFCs amended to permit ready forward contracts in dated securities and treasury bills issued by the Government of India and dated securities issued by the state governments.

### August

- The Reserve Bank announced the operational guidelines to be followed by banks for transfer of branches in rural and semi-urban centres from one commercial bank to another.
- The Reserve Bank issued revised instructions to UCBs for opening of extension counters.
- The ceiling on certain categories of priority sector advances enhanced.
- Banks advised to allow transfer of funds from one customer's account to another customer's account of the same bank within the country, through automated teller machines (ATMs).
- Banks advised that a non-performing asset (NPA) would now be classified in sub-standard category for a period of only 18 months from the date it is recommended as NPA, instead of the earlier norm of 24 months. Similarly, after an asset has remained in sub-standard category for 18 months, it would be classified as a doubtful asset as against the earlier norm of 24 months.

### September

- The Reserve Bank, in consultation with the government, decided to derecognise overseas corporate bodies (OCBs) in India as an eligible 'class of investor' under various routes/schemes available under extant foreign exchange management regulations. Overseas entities owned by NRIs, however, continue

to enjoy all the facilities available to any foreign investor, including automatic route for foreign direct investment.

- Financially strong UCBs which comply with certain norms laid down by the Reserve Bank, permitted to undertake insurance business as corporate agent without risk participation.
- Banks registered with the Securities and Exchange Board of India (SEBI) as depository participants, permitted to provide the facility of depository services to its customers at extension counters.
- Banks advised that the interest rates on fresh repatriable NRE deposits for one to three years contracted effective close of business on September 15, 2003 should not exceed 100 basis points above the LIBOR/SWAP rates for US dollar of corresponding maturity.
- Indian citizens employed by a foreign company outside India and on deputation to the office/branch/subsidiary/joint venture in India of such foreign company, allowed to open, hold and maintain a foreign currency account with a bank outside India.
- Non-diplomatic staff of foreign embassies in India who are foreign nationals and hold official passport permitted to maintain foreign currency deposit accounts.

#### October

- Lending and deposit rates in respect of undisbursed amounts of Rural Infrastructure Development Fund IV to VIII, restructured.
- A new credit facility called the Swarojgar Credit Card Scheme introduced. The Scheme aims at providing adequate and timely credit to small artisans, handloom weavers, service sector, fishermen, self-employed persons, rickshaw owners, other micro-entrepreneurs, etc.
- Commercial banks advised that they need not obtain the Reserve Bank's prior approval for engaging in insurance business or referral arrangement without any risk participation.
- Reserve Bank set out certain criteria to be adopted by UCBs for declaration of dividend.
- Project/service exporters, being resident in India, permitted to open, hold and maintain foreign currency account with a bank outside or in India.
- Indian companies, viz., a body corporate registered or incorporated in India, granted general permission to grant rupee loans to their employees who are NRIs or persons of Indian origin (PIOs), subject to certain conditions.
- Individual residents allowed to borrow a sum not exceeding USD 2,50,000 or its equivalent from close relatives residing outside India, without the Reserve Bank's prior permission.
- Foreign embassy/diplomat/consulate general permitted to purchase/sell immovable property in India, other than agricultural land/plantation property/farm house, subject to certain conditions.

#### November

- To contain the risk arising out of non-SLR (statutory liquidity ratio) investment portfolio of banks/FIs, through private placement route, the Reserve Bank framed guidelines for management of non-SLR investment by banks. The guidelines would come into effect from April 1, 2004.
- Foreign banks operating in India, permitted to remit, without the Reserve Bank's prior approval, net profits/surplus (net of tax) earned in a quarter year in the normal course of business arising out of their Indian operations, on a quarterly basis to their head offices.
- Commercial banks advised that netting off of old and small value clearing difference entries at the branches, transfer of entries to head office, netting off at the head office and writing off/transfer at the head office, should be subjected to a one hundred per cent audit by at least two of the following audits, viz., concurrent audit, internal audit and statutory audit.
- Banks given the freedom to determine interest rates on loans and advances (i) for purchase of consumer durables (ii) to individuals against shares and debentures/bonds (iii) other non-priority sector personal loans, regardless of the size of the loans.
- The interest rate on deposits placed by foreign banks operating in India with the Small Industries Development Bank of India

(SIDBI) to make good the shortfall in achieving the priority sector lending target, fixed at Bank Rate.

- To encourage banks to lend more to the poor and needy students, the Reserve Bank decided that educational loans up to the ceilings of Rs. 7.50 lakh for studies

in India and Rs. 15 lakh for studies abroad, would be reckoned under priority sector advances.

- To further improve the flow of credit to SSIs, banks advised that they may, on the basis of good track record and financial position of the SSI units, increase the limit of dispensation of collateral for loans, from the existing level of Rs. 15 lakh to Rs. 25 lakh.
- Stockinvest Scheme withdrawn.
- The Reserve Bank granted general permission to foreign entities for setting up a project office in India, subject to certain conditions.
- UCBS advised that in addition to their subsidiary general ledger (SGL)/constituent subsidiary general ledger (CSGL) account, they may open a dematerialized (demat) account with a bank depository participant of National Securities Depository Limited (NSDL/Central Depository Services Limited (CDSL) or with the Stock Holding Corporation of India (SHCIL) for holding private sector undertaking securities.

#### December

- Resident entities having overseas direct investments permitted to hedge the exchange risk arising out of such investments.
- Indian students studying abroad, henceforth to be treated as NRIs. NRI status does not dilute the utilisation of the existing foreign exchange facilities by students in regard to their academic pursuits.
- Foreign exchange reserves touch historic high of US \$ 100 billion.

