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MONETARY AND CREDIT INFORMATION REVIEW

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POLICY

Declaration of Dividend

T he Reserve Bank has decided to grant general permission to banks to declare dividends, provided they comply with the guidelines indicated below:

Eligibility Criteria

1) Only those banks, which comply with the following minimum prudential requirements, would be eligible to declare dividends without the Reserve Bank's prior approval :

   The bank should have -

   (a) capital to risk-weighted assets ratio (CRAR) of at least 9 per cent for preceding two completed years and the accounting year for which it proposes to declare dividend.

   (b) Net non-performing assets (NPAs) of less than 7 per cent.

In case any bank does not meet the above CRAR norm, but is having a CRAR of at least 9 per cent for the accounting year for which it proposes to declare dividend, it would be eligible to declare dividend provided, its net NPA ratio is less than 5 per cent.

2) The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.

3) The bank should comply with the Reserve Bank's prevailing regulations/guidelines, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to statutory reserves, etc.

4) The proposed dividend should be payable out of the current year's profit.

5) The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.

In case any bank does not meet the above eligibility criteria, no special dispensation would be available from the Reserve Bank.

Quantum of Dividend

Banks which fulfil the eligibility criteria, may declare and pay dividends, provided –

- The dividend payout ratio does not exceed 40 per cent. [Dividend payout ratio should be calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'].
- In case the profit for the relevant period includes any extraordinary profits/income, the payout ratio should be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio.
- The financial statements pertaining to the financial year for which the dividend is declared, should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

The Reserve Bank will not entertain any application for a higher dividend payout ratio than the one for which the banks qualify.

Highlights of the Annual Policy Statement for 2005-06

Domestic Developments

- During 2005-06, real GDP growth projected at around 7.0 per at 14.5 cent, inflation rate in a range of 5.0-5.5 per cent and M3 per cent
- GDP growth for 2004-05 placed at 6.9 per cent.
- Inflation rate stood at 5.0 per cent as at end-March 2005.
- Money supply (M3) increased by 12.8 per cent.
- RBI's foreign currency assets increased by Rs.1,15,044 crore.
- Non-food credit increased by 26.5 per cent. Total flow of funds from SCBs increased by 23.6 per cent exceeding the growth of 19.0 per cent anticipated in October 2004.
- Combined market borrowings of the Centre and States were lower.
- During 2004-05, financial markets remained generally stable. While interest rates in money and government securities markets rose intra-year, they stabilised in the later part of the year, *albeit* at higher levels.
- While the share of sub-PLR lending rose, lending rates remained stable.

External Developments

- Exports in US dollar terms increased by 27.1 per cent while Imports by 36.4 per cent leading to widening of trade deficit to US $ 23.8 billion during 2004-05 (upto February).

- During 2004-05 (April-December), current account showed a deficit of US $ 7.4 billion as against a surplus of US $ 4.8 billion in the corresponding period of the previous year,
- Net accretion to foreign exchange reserves, including valuation changes, amounted to US $ 18.2 billion during April-December 2004.
- Indian foreign exchange market witnessed orderly condition with rupee exhibiting two-way movements.

Stance of Monetary Policy

- Overall stance of monetary policy for 2005-06 will continue to be as set out in the mid-term Review of October 2004 which includes: (i) Provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability, (ii) consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth and (iii) to consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations.

Measures

- Bank Rate kept unchanged at 6.0 per cent
- Reverse Repo Rate increased by 25 basis points to 5.0 per cent.
- Cash Reserve Ratio kept unchanged at 5.0 per cent.

Developmental and Regulatory Policies

- S*tatus quo* on the administered interest rates on (i) savings deposit accounts, (ii) non-resident Indian (NRI) deposits, (iii) small loans up to Rs.2 lakh and (iv) export credit.
- Effective June 11, 2005, non-bank participants would be allowed to lend up to 10 per cent of their average daily lending in call/notice money market during 2000-01.
- Effective August 6, 2005, non-bank participants would be completely phased out from the call/notice money market.
- Effective April 30, 2005, the benchmark for fixing prudential limits on exposures to call/notice money market in the case of scheduled commercial banks linked to their capital funds (sum of Tier I and Tier II capital).
- From April 30, 2005, all NDS members to report their term money deals on NDS platform.
- A screen-based negotiated quote-driven system for all dealings in call/notice and term money market transactions proposed.
- An electronic trading platform for conduct of market repo operations in government securities, in addition to the existing voice based system to be facilitated.
- Participation in market repo facility in government securities for non-scheduled urban co-operative banks (UCBs) and listed companies having gilt accounts with scheduled commercial banks to be allowed subject to eligibility criteria and safeguards. The minimum maturity period of certificates of deposit (CDs) reduced from 15 days to 7 days.
- The settlement system for transactions in government securities to be standardised to T+1 basis.
- The Reserve Bank to continue to resort to multiple and uniform price methods flexibly in the auction of government securities.

- To permit sale of government securities allotted in primary issues with and between CSGL account holders also on the same day.
- Cancellation and rebooking of all eligible forward contracts booked by residents, irrespective of tenor, to be allowed.
- Banks to be allowed to approve proposals for commodity hedging in international exchanges from their corporate customers.
- The closing time for inter-bank foreign exchange market in India to be extended by one hour up to 5.00 p.m.
- The ceiling of overseas investment by Indian entities in overseas joint ventures and/or wholly owned subsidiaries to be raised from 100 per cent to 200 per cent of their net worth under the automatic route.
- General permission accorded to ADs to open foreign currency accounts of project offices set up in India by foreign companies and to operate the accounts flexibly.
- Expert Group set up by RBI to formulate strategy for increasing investment in agriculture.
- It is proposed to conduct a survey to assess customer satisfaction on credit delivery in rural areas by banks with the help of an outside agency.
- It is proposed to increase the limit on loans to farmers through the produce marketing scheme from Rs.5 lakh to Rs.10 lakh under priority sector lending.
- NGOs enabled to access ECBs up to US $ 5 million during a financial year for permitted end-use, under automatic route.
- CIBIL is working out a solution that would provide comprehensive credit reports on SSIs.
- The Reserve Bank is reviewing all its existing guidelines on financing small scale sector, debt restructuring, nursing of sick units, etc., with a view to rationalising, consolidating and liberalising them.
- The Reserve Bank to explore modalities to meet the growing financial needs of medium enterprises.
- RBI to review the performance of RRBs and explore their restructuring.
- To issue guidelines on merger and amalgamation between private sector banks and with NBFCs.
- Banks urged to refocus on deposit mobilisation and empower the depositors, by providing wider access and better quality of banking services.
- The nature, scope and cost of services to be monitored to assess whether there is any denial, implicit or explicit, of basic banking services to the common person.
- To set up an independent Banking Codes and Standards Board of India on the model of the mechanism in the UK in order to ensure that comprehensive code of conduct for fair treatment of customers are evolved and adhered to.
- To issue appropriate guidelines to banks to ensure transparency and disclosure of information by the card issuing banks and customer rights protection including facilitating enforcement of such rights.
- To widen the scope of the Banking Ombudsman *inter alia* to cover all individual cases/grievances relating to non-adherence to the fair practices code evolved by IBA and adopted by individual banks.
- The Reserve Bank to enter into bank-wise dialogues relating to ownership and governance in private banks to ensure a time-bound framework for compliance.
- On the basis of the feedback, the draft guidelines on securitisation of standard assets to be finalised.
- The guidelines on sale/purchase of non-performing assets to be finalised on the basis of feedback.

- Draft circular on CDR to be put in the public domain for wider dissemination before taking final decisions.
- The Report of the Working Group on Conflicts of Interest in the Indian Financial Services Sector (Chairman: Shri D.M.
- Satwalekar) to be put in the public domain for wider dissemination before recommending for adoption.
- The Vision Document for Payment and Settlement Systems indicating action points to be placed in the public domain for wider dissemination.
- A Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) constituted as a Committee of the Central Board of RBI as notified in the Gazette of India on February 18, 2005
- National Electronic Funds Transfer (NEFT) System and NEFT (Extended) to be operationalised.
- Banks encouraged to make increasing use of SFMS for inter/ intra bank transactions.
- To facilitate the technology plans of the financial sector, RBI is preparing a Financial Sector Technology Vision Document to be put in the public domain.
- A medium-term framework for UCBs up to 2010 to be placed in the public domain for wider dissemination and for implementation.
- RBI to examine the issue of smooth flow of bank finance to NBFCs.
- First Quarter Review of Part I to be undertaken on July 26, 2005.

Declaration of Dividend

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Board Oversight

Banks should place a copy of these guidelines before their board at its next meeting. While deciding on the proposals for declaring dividend, banks' boards should take into account the interests of all stakeholders and also the following aspects:

(i) the interim dividend paid,

(ii) the Reserve Bank's annual financial inspection findings with regard to divergence in identification of NPAs, shortfall in provisioning, etc.,

(iii) the auditors' qualifications pertaining to the statement of accounts,

(iv) the Basel II capital requirements, and

(v) the bank's long term growth plans.

Reporting

Banks should report details of dividend declared during the accounting year within a fortnight of declaring the dividend.

General

These guidelines are applicable to the dividends declared for the accounting year ended March 31, 2005 onwards. Violation of these guidelines would be viewed very seriously and would attract penal action under Section 46 of the Banking Regulation Act, 1949.

FEMA

Overseas Investment liberalised

With a view to promoting Indian investment abroad and to enable Indian companies to reap the benefits of globalisation, the ceiling for investment in overseas joint ventures (JV)/wholly owned subsidiaries (WOS) by eligible Indian entities under the automatic route, has been raised from 100 per cent to 200 per cent of their net worth.

The Reserve Bank has clarified that the ceiling is now not applicable to the investments made out of balances held in exchange earners' foreign currency (EEFC) accounts and out of the proceeds of American Depository Receipts (ADR)/Global Depository Receipts (GDR) issue.

Project Offices can open Forex Accounts

The Reserve Bank has decided to allow authorised dealers (ADs) to open foreign currency accounts for the project offices (established under the Reserve Bank's general/specific approval), as well as permit intermittent remittances by project offices without the Reserve Bank's approval.

Opening of Foreign Currency Account

The concerned branch of the AD may open non-interest bearing foreign currency account for project offices in India provided -

a) The project office has been established in India, with the Reserve Bank's general/specific permission and has the requisite approval of the concerned project sanctioning authority,

b) The contract under which the project has been sanctioned, specifically provides for payment in foreign currency.

c) Each project has only one foreign currency account.

d) The permissible debits and credits in the account should be as below -

- *Debits*
    - Payment of project related expenditure.
- *Credits*
    - Foreign currency receipts from the project sanctioning authority.
    - Remittances from parent/group company abroad or bilateral/multilateral international financing agency.

e) The responsibility of ensuring that only the approved debits and credits are allowed in the foreign currency account would rest solely with the concerned branch of the AD. The accounts should be subject to 100 per cent scrutiny by the AD's concurrent auditor.

f) The foreign currency account should be closed on completion of the project.

Intermittent Remittances

ADs may permit intermittent remittances by project offices pending winding up/completion of the project provided, they are satisfied with the bonafides of the transaction and provided the project office submits –

- An auditor's/chartered accountant's certificate stating that sufficient provisions have been made to meet the liabilities in India including income-tax etc., and

- An undertaking that the remittance will not, in any way, affect the completion of the project in India and that any shortfall of funds for meeting any liability in India will be met by inward remittance from abroad.

Reporting

The foreign company establishing a project office in India should furnish a report through the concerned AD's branch to the Reserve Bank's Regional Office under whose jurisdiction the project office is set up, incorporating details as follows :

- Name and address of the foreign company.
- Reference number and date of letter awarding the contract.
- Particulars of the authority awarding the projects/contract.
- The total amount of contract.
- Address/e-mail address/telephone number/fax number of the project office.
- Tenure of project office.
- Brief details of the project undertaken.
- AD's branch with whom the account has been opened and the foreign currency in which the account has been opened.
- An undertaking that the project office is eligible to avail of the general permission.

This Report should be forwarded through the AD's branch to the Reserve Bank's concerned Regional Office within 2 months of establishment of the project office.

The project office should also submit to the AD's branch on an annual basis, a certificate from a chartered accountant showing the project status and certifying that the accounts of the project office have been audited and the activities undertaken are in conformity with the general/specific permission given by the Reserve Bank.

Inter-project transfer of funds would be permitted with the prior permission of the Reserve Bank's Regional Office under whose jurisdiction the project office is situated.

In case of disputes between the project office and the project sanctioning authority or other government/non-government agencies, etc., the balance held in such account should be converted into Indian rupees and credited to a special account which should be dealt with as per the settlement of the dispute.

CUSTOMER SERVICE

Door-step Banking

The Reserve Bank has advised all scheduled commercial banks to formulate a scheme for providing services at the premises of a customer within the framework of Section 23 the Banking Regulation Act, 1949. Banks may, therefore, formulate the scheme with their board's approval and submit it to the Reserve Bank for approval.

In the interregnum, agency banks may continue to lift cash and credit instruments, etc., from the premises of central and state government departments.

The Reserve Bank had been receiving several requests from government departments like railways, etc., for making available banking services including collection of cash at their premises.

Relief/Savings Bond holders to be compensated for Late Receipt of Interest/Principal

The Reserve Bank has asked commercial banks to compensate the holders of Relief/Savings Bonds for the loss incurred by them on account of late receipt or delayed credit of the interest warrants/maturity value of their investments in these Bonds. The compensation should be paid at the current savings bank rate for the number of days of delay. The Reserve Bank's own offices would also pay such compensation in case the delay occurs at their end.

As per the Reserve Bank's instructions, banks are required to send to the holders of non-cumulative bonds interest warrants one month before the due date. The maturity value of cumulative bonds has also to be sent in advance. In case the bond holder tenders the discharged securities after the bonds have matured, the bank is required to send the maturity value to the bond holder within five clear working days of receiving the duly discharged securities.

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