Volume II
Issue 10
April 2006

MONETARY AND CREDIT INFORMATION REVIEW

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POLICY

Relief Measures for Avian Flu affected Poultry Industry

The Reserve Bank has issued guidelines to banks for relief measures to avian flu affected poultry industry. Keeping in view the loss of income that has occurred due to culling of birds as well as steep fall in the demand for poultry products and their prices on account of outbreak of avian influenza in some areas in the country, banks have been advised to consider extending the following facilities to poultry units financed by them:

(i) The principal and interest due on working capital loans as also instalments and interest on term loans which have fallen due for payment on/after the onset of the bird flu, i.e., February 1, 2006 and remaining unpaid, may be converted into term loans. The converted loans may be recovered in instalments based on projected future inflows over a period up to three years with an initial moratorium of up to one year.

(ii) The remaining portion of term loan may be rescheduled with a moratorium period up to one year depending upon the cash flow generating capacity of the unit.

(iii) The reschedulement/conversion may be completed on or before June 30, 2006.

(iv) The rescheduled/converted loans may be treated as current dues.

(v) The borrower would be eligible for fresh need based finance.

(vi) The relief measures may be extended to all accounts of poultry industry, which were classified as standard accounts as on March 31, 2006.

The Reserve Bank has further advised that for state/district co-operative banks and regional rural banks, the National Bank for Agriculture and Rural Development (NABARD) will issue a circular on similar lines.

As the Government has proposed to grant a one time interest subvention of 4 per cent per annum on the outstanding principal amount as on March 31, 2006 (not including any part of the principal amount that has become overdue) to all poultry units availing loans from banks, the Reserve Bank will issue instructions separately on the scope of the subvention and the manner in which it would be calculated and disbursed to banks.

Bills discounted under L/C - Risk Weight/Exposure Norms

The Reserve Bank has reviewed the credit exposure and risk weight norms relating to bills purchased/discounted/ negotiated under letters of credit (L/Cs) and has decided that -

(i) bills purchased/discounted/negotiated under L/C (where the payment to the beneficiary is not made 'under reserve') should be treated as an exposure on the L/C issuing bank and not on the borrower;

(ii) all clean negotiations as indicated above should be assigned risk weight as is normally applicable to inter-bank exposures, for capital adequacy purposes; and

(iii) in the case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly.

Interest Rates

FCNR(B) Deposits

For foreign currency (non-resident) accounts (banks) **{**FCNR(B)} deposits of all maturities contracted effective close of business in India on March 28, 2006, interest should be paid within the ceiling rate of LIBOR/SWAP rates for the respective currency/corresponding maturities. On floating rate deposits, interest should be paid within the ceiling of SWAP rates for the respective currency/maturity. For floating rate deposits, the interest reset period would be six months.

NRE Deposits

The interest rates on fresh repatriable non-resident (external) rupee (NRE) term deposits for one to three years should not exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturities plus 100 basis points (as against 75 basis points effective since November 17, 2005). The revised interest rates would also be applicable in case the maturity period exceeds three years and to NRE deposits renewed after their present maturity period.

Export Credit in Foreign Currency

The ceiling rate on export credit in foreign currency by banks has been revised to LIBOR plus100 basis points from the present ceiling rate of LIBOR plus 75 basis points with immediate effect. The revised interest rates also apply to cases where EURO LIBOR/EURIBOR have been used as the benchmark. The revision in the rates of interest would be applicable not only to fresh advances but also to the existing advances for the remaining period.

Co-op Banks

Currency Chest Facility for UCBs

The currency chest facility has been extended to scheduled primary (urban) cooperative banks (UCBs) which are registered under the Multi State Co-operative Societies Act, 2002 and under the state acts, where the state governments concerned have assured regulatory co-ordination by entering into memorandum of understanding with the Reserve Bank. To be eligible for the facility, the UCBs should have -

(a) a minimum net worth of Rs 200 crore;

(b) a capital to risk weighted assets ratio (CRAR) of 12 per cent and net non-performing assets (NPAs) of less than 10 per cent;

(c) made profit in the preceding three years and should not have accumulated losses;

(d) minimum "A" audit classification;

(e) complied with cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements; and

(f) an elected board of management with at least two professionals.

Irregularities in Investment Portfolio of StCBs/DCCBs

In view of the irregularities/deficiencies observed by NABARD in the investment portfolio of state co-operative banks

(StCBs) and district central co-operative banks (DCCBs) the Reserve Bank has advised these banks to take steps as under:

- Half-yearly review of the investment portfolio should be undertaken diligently. If any bank does not invest in government securities, public sector undertaking (PSU) bonds etc., it should adopt a resolution in this regard and should submit a 'NIL' report to the regional offices of NABARD and the Reserve Bank within one month from the end of the respective half-year.
- All StCBs should prepare an approved panel of brokers, which could be used by the DCCBs also. No StCB/DCCB should undertake any transaction involving a broker who is not in the approved panel.
- StCBs/DCCBs are not allowed to place funds as deposits with PSUs/companies/corporations/UCBs/non-banking finance companies (NBFCs), etc. If any bank has violated these instructions, it should frame a realistic time-bound programme to retire such excess investments with the approval of the Reserve Bank and NABARD and submit a quarterly progress report in this regard.
- All StCBs/DCCBs should submit, each quarter, a certificate of holding of securities to the Reserve Bank's regional office.
- StCBs/DCCBs are allowed to place their genuine surplus funds in non-SLR investments viz., PSU bonds and bonds/ equity of all-India financial institutions. The total of such investments should not exceed 10 per cent of the bank's total deposits as on March 31 of the previous year, with a sub-ceiling of 5 per cent for investments in PSU bonds.

  Investment in mutual funds, non-PSU bonds, etc, is not allowed. If any bank has made such investments, it should frame a realistic time-bound programme to retire the same with the approval of the Reserve Bank and NABARD and submit a quarterly progress report in this regard.
- StCBs/DCCBs should undertake concurrent audit of their SLR investment portfolio. The monthly audit of treasury transactions should be forwarded to the Reserve Bank/ NABARD.

Branch Banking

Premature Encashment of 6.5 % Savings Bonds, 2003

The 6.5 % Savings Bonds, 2003 which were issued with effect from March 24, 2003 are repayable on expiry of 5 years from the date of issue. The scheme, however, provides for premature encashment after a minimum lock-in period of 3 years from the date of issue. The bonds have completed 3 years in March 2006 and have become eligible for premature encashment on July 1, 2006 (non-cumulative) and notionally with effect from September 24, 2006 onwards in respect of cumulative bonds. As such, an investor can surrender the bonds at any time after the 6^{th} half-year, but redemption payment would be made on the following interest payment due date. The effective date of premature encashment for non-cumulative bonds will be July 1 and January 1 every year after completion of three years and for cumulative bonds, notionally the $7^{th,}$ half-yearly interest payment due date (the date can be any date and not necessarily July 1 and January 1). Fifty per cent of the interest due and payable for the last six months of the holding period is, however, recoverable both in respect of cumulative and non-cumulative bonds. The amount payable per Rs. 1,000 invested would be as indicated below :

Payable on		Amount payable per Rs. 1,000 invested	
		Non-cumulative	**Cumulative**
7^{th}	half-year	Rs. 1016.25	Rs. 1231.25
8^{th}	half-year	Rs. 1016.25	Rs. 1271.20
9^{th}	half-year	Rs. 1016.25	Rs. 1312.50

The Reserve Bank has clarified the provisions for premature encashment of these bonds as under:

i) Premature encashment means encashment of entire amount invested through any single application for 6.5 % Savings Bonds, 2003 which has completed 3 years from the date of issue. As such, investors can withdraw the entire amount of investment made on any single application. In the case of bond ledger account (BLA) if a person has more then one investment in the scheme with different investment numbers, then total premature encashment of a particular investment number as mentioned by the investor may be allowed. The other investments in the same BLA under the same scheme would remain untouched.

ii) Partial encashment of amount invested on any single application is not allowed. If, however, a holder has multiple investments in the same BLA, he can make one or more request(s) for prematurely encashing the entire amount(s) of one or more investment(s) which has/have completed 3 years period from the date of issue. For all such requests received after the 6^{th} half-year, redemption would be made once on the due date for the 7^{th} half-yearly interest payment. For requests received after the 7^{th} half-year, redemption would be on the 8^{th} half-yearly interest payment due date and so on.

iii) Where post dated interest warrants have been issued to senior citizens at the time of investment, they would be required to surrender the warrants along with the request for premature encashment.

iv) There is no specific form/declaration which the investor has to fill-up while submitting his request for premature encashment.

v) To prematurely withdraw the full amount, the investor has to submit a request letter along with a discharge certificate in form 1A.

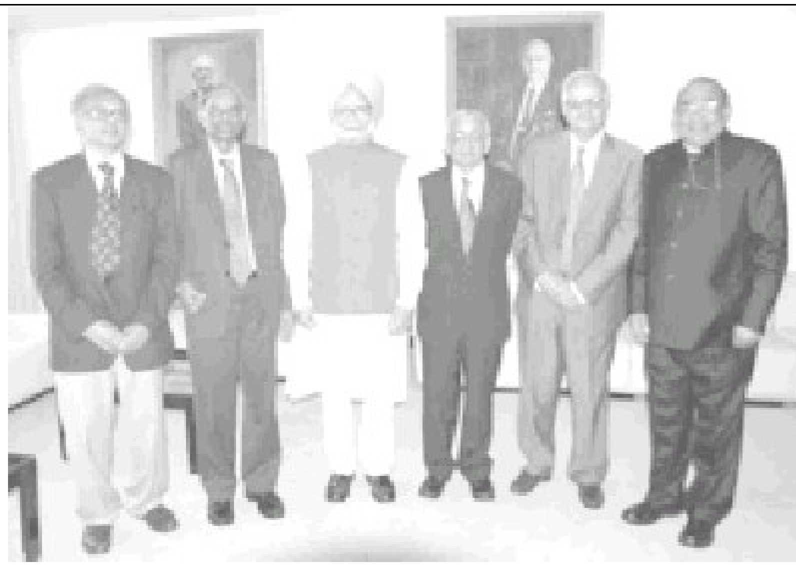
vi) Requests for premature encashment of investment may be allowed even after despatch of the interest warrant, provided such requests are accompanied with the interest warrant of the latest half-year issued to the investor. In cases where the interest warrants have already been despatched, but have not been received by the holders or have not been tendered by them, requests for premature encashment may be accepted on the condition that 50 per cent of the interest due and payable for the last six months of the holding period would be recovered from the principal amount. Such interest should be credited to the interest account maintained with the Central Accounts Section, Nagpur.

vii) When requests for premature encashments are received well in advance, payment orders for redemption amount/ credit to account through electronic funds transfer (EFT)/ national electronic funds transfer (NEFT)/electronic clearing service (ECS) should be made on the due date i.e., July 1/ January 1 or the 7^{th}, 8^{th}, or 9^{th} half-yearly interest payment due dates, as the case may be. Where such requests have not been received well in advance, the issuing offices may take five clear working days, as stipulated in the citizens’ charter, to make the payment.

PM releases Volume 3 of RBI's History and inaugurates RBI's Centre for Advanced Financial Learning

Dr. Manmohan Singh, Honourable Prime Minister of India, released the third volume of the history of the Reserve Bank of India on March 18, 2006 in a function organised at the central office of the Reserve Bank in Mumbai. This volume covers the period between 1967 and 1981. Dr. Manmohan Singh also inaugurated the Centre for Advanced Financial Learning of the Reserve Bank. Dr. Manmohan Singh, a former Governor of the Reserve Bank, is the first Indian Prime Minister to visit the Reserve Bank and to address a special meeting of its Central Board.

To commemorate the occasion of completion of seventy years of existence of the Reserve Bank of India, Shri P Chidambaram, Union Finance Minister, released, on the same



Prime Minister with past and present Governors. From left to right: Shri S. Venkitaramanan, Dr. C. Rangarajan, Dr. Manmohan Singh, Shri M. Narasimham, Dr. Bimal Jalan and Dr. Y. V. Reddy

day, the Reserve Bank of India's annual Report on Currency and Finance for 2004-2005. "Evolution of Central Banking in India" is the theme of this report to synchronise with the release of the third volume of the history of the Reserve Bank.

The function was attended by Shri S. M. Krishna, Governor of Maharashtra and Shri Vilasrao Deshmukh, Chief Minister of Maharashtra. Six Governors - past and present - of the Reserve Bank of India also graced the function. Members of the Central Board of Directors of the Reserve Bank, senior members of staff and those associated with the history project and members of the committee for makeover of the Bankers' Training College were among the special invitees at the function.

Annual Policy Statement for 2006-07 : Highlights

Dr. Y. V. Reddy, Governer, in a meeting with chief executives of major commercial banks presented the Annual Policy Statement for 2006-07 on April 18, 2006. The highlights are:

Stance

- GDP growth may be placed in the range of 7.5-8.0 per cent during 2006-07 assuming accelerated growth in agriculture under normal monsoon conditions and barring domestic or external shocks.
- The policy endeavour would be to contain the year-on-year inflation rate for 2006-07 in the range of 5.0-5.5 per cent.
- The expansion in M3 projected at around 15.0 per cent for 2006-07 even though the policy preference would be for maintaining a lower order of money supply growth in 2006-07.
- The growth in aggregate deposits projected at around Rs.3,30,000 crore in 2006-07.
- Adjusted non-food credit expected to increase by around 20 per cent, a calibrated deceleration from a growth of above 30 per cent ruling currently.
- Appropriate liquidity to be maintained to meet legitimate credit requirements, consistent with the objective of price and financial stability. Towards this end, the Reserve Bank to continue with its policy of active demand management of liquidity through OMO including MSS, LAF and CRR, and using all the policy instruments at its disposal flexibly, as and when the situation warrants.
- Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the current assessment of the economy including the outlook for inflation, the overall stance of monetary policy at this juncture will be:
    - To ensure a monetary and interest rate environment to enable continuation of the growth momentum consistent with price stability while being in readiness to act in a timely and prompt manner on any signs of evolving circumstances impinging on inflation expectations.
    - To focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic, in particular, financial stability.
    - To respond swiftly to evolving global developments.

Monetary Measures

- Bank Rate kept unchanged at 6.0 per cent.
- Reverse repo rate and repo rate kept unchanged at 5.5 per cent and 6.5 per cent, respectively.
- CRR kept unchanged at 5.0 per cent.
- *Status quo* maintained on interest rate on savings bank deposits.
- The ceiling on interest rates on non-resident (external) rupee deposits for one to three years maturity raised by 25 basis points to 100 basis points above LIBOR/SWAP rates for US dollar of corresponding maturity with immediate effect.
- The ceiling interest rate on export credit in foreign currency raised by 25 basis points to LIBOR plus 100 basis points from LIBOR plus 75 basis points with immediate effect.
- Provisioning requirement for standard advances, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans raised from 0.40 per cent to 1.0 per cent.
- Risk weight on exposures to commercial real estate raised from 125 per cent to 150 per cent.
- Bank’s total exposure to venture capital funds to be treated as part of capital market exposure and assigned a higher risk weight of 150 per cent.
- A screen-based negotiated quote-driven system for dealings in call/notice and term money market (NDS-CALL) to be launched shortly with participation by market constituents on a voluntary basis.
- ‘When issued’ (WI) market in government securities announced.
- Primary dealers permitted to diversify their activities.

- Ways and means advances (WMA) limits for the central government to be fixed on a quarterly basis as against half-yearly.
- Authorised dealers (ADs) permitted to grant extension of time to realise export proceeds up to US $ 1 million beyond the period of six months.
- ADs permitted to allow remittances towards initial and recurring expenses of branch offices of Indian entities up to 10 per cent and 5 per cent of the average annual sales/ income or turnover during the last two accounting years, respectively.
- Regional rural banks (RRBs) permitted to open/shift offices after obtaining clearance from the Empowered Committees.
- Working Group to be constituted to suggest measures for assisting distressed farmers, including provision of financial counselling services and introduction of a specific credit guarantee scheme under the DICGC Act for such farmers.
- State level bankers' committee (SLBC) convenors in all states/union territories to identify at least one district in their area for achieving 100 per cent financial inclusion by providing a 'no-frills' account and a general purpose credit card.
- Banks to display and update, in their offices/branches as also on their websites, the details of various service charges.
- Working Group to be constituted to formulate a scheme for ensuring reasonableness of bank charges and to incorporate the same in the Fair Practices Code.

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 **Onlooker Press Ltd.,** 16, Sassoon Dock, Colaba, Mumbai - 400 005. **For renewal and change of address please write to the Chief General Manager, Press Relations Division, Reserve Bank of India, Central Office Building, 12th floor, Fort, Mumbai - 400 001 without enclosing DD/cheque. MCIR is also available on Internet at www.mcir.rbi.org.in**