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MONETARY AND CREDIT INFORMATION REVIEW

BANKING

Penal Interest for Delay in Remittance of Government Receipts

Based on the recommendations of a Committee set up by the Government of India, Ministry of Finance, to review the procedure relating to all aspects of credit of government revenues to the exchequer, the Government of India has revised the procedure from January 1, 2007. The revised procedure is detailed below :

(i) *Local Transactions* : The existing time limit for remittance of government receipts to the Reserve Bank's Central Accounts Section (CAS) would continue i.e. wherever the collecting bank branch and the focal point branch of the bank are in the same city/agglomeration, the settlement of transaction with the Reserve Bank should be completed within T+3 working days (where T is the day when money is available to the bank branch). For calculating the working days, the Reserve Bank's calendar would be followed.

(ii) *Outstation Transactions* : The existing time limit for remittance of government receipts to the CAS would continue, i.e., wherever the collecting bank branch and the focal point branch of the bank are in different city/agglomeration, the settlement of transaction with the Reserve Bank should be completed within T+5 working days (where T is the day when money is available to the bank branch). For calculating the working days, the Reserve Bank's calendar would be followed.

(iii) In case of both the local and outstation transactions, the put through date, i.e. the date of settlement with the CAS, the Reserve Bank should be kept outside the existing time limit of T+3 and T+5 working days, respectively.

(iv) Delayed period interest would be imposed on banks for the delayed period and not from the date of transaction i.e., the 'delay period' calculation would start from the day following the put through date.

(v) The period of delay in a transaction of Rs.1 lakh and above would attract delayed period interest at Bank Rate + 2 per cent. The Bank rate would be the rate notified by the Reserve Bank from time to time.

(vi) For each transaction below Rs.1 lakh, the delayed period interest would be levied at Bank Rate for delays up to 5 calendar days and for delays above 5 calendar days at Bank Rate + 2 per cent for the full period of the delay.

(vii) For non-tax and all other government receipts, the above instructions regarding permissible time limit, calculation of delay period and delayed period interest would apply.

(viii) The Controller General of Accounts (CGA) has decided that every Principal Chief Controller of Accounts (Pr.CCAs), Chief Controller of Accounts (CCAs) and Controller of Accounts (CAs) in ministries/departments should undertake quarterly review of all remittances made by banks. If the delay is found to be 5 per cent and more with the bank as a whole or with any of its branches in two successive quarters, authorisation for the concerned bank or branch would be forwarded to the CGA for review with the recommendations of PrCCA/CCA/CA. Banks are expected to build their own internal control mechanism so that they can take preventive and corrective actions well in time.

(ix) Public sector banks, in particular those dealing with government business are expected to expedite implementation of the core banking solution (CBS) and

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other electronic modes as early as possible. After one year the CGA will review the performance of all banks dealing with government transactions and also their status on technological developments in handling government business. With this review the CGA may consider giving a fresh look towards authorisation of bank/branches and other related parameters for efficient handling of government transactions.

FOREX

Rebooking of Cancelled Contracts

AD Category - I banks have been permitted to allow foreign institutional investors (FIIs) to cancel and rebook forward contracts up to a limit of 2 per cent of the market value of their entire investment in equity and/or debt in India. The limit for calculating the eligibility for rebookings should be based upon the market value of the portfolio as at the beginning of the financial year (April - March). The outstanding contracts must be duly supported by underlying exposure at all times.

AD Category - I banks have to ensure that –

(i) the total forward contracts outstanding do not exceed the market value of portfolio and,

(ii) forward contracts permitted to be rebooked do not exceed 2 per cent of the market value as determined at the beginning of the financial year.

AD Category – I banks should monitor forward covers on a fortnightly basis. The scheme would be reviewed on an ongoing basis.

Loans to NRIs/Third Parties against (NR (E) RA)/ FCNR(B) Deposits

Banks have been advised not to grant fresh loans or renew existing loans in excess of rupees 20 lakh against NR(E)RA and FCNR(B) deposits, either to depositors or to third parties. Banks have also been advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.

CUSTOMER SERVICE

Repayment of 8% Relief Bonds, 2002

The 8% Relief Bonds, 2002 will mature for repayment from March 1, 2007 onwards according to the date of individual investments. Agency banks have been advised to strictly adhere to the general procedures in connection with the repayment of the bonds held under bond ledger accounts (BLAs) as given below:

Issue of Advices

The attention of the holders may be drawn to the ensuing maturity of their bonds one month before the date on which investment in the BLA is due for repayment. The holders should be advised to submit the requisite documents 20 days in advance so that repayment is effected on the due date itself. The advices should be sent by registered/speed post. It should be ensured that the advices are sent only in respect of BLAs which are free from stoppage.

The Government of India had provided in the scheme a maximum limit of Rs.2 lakh per investor per annum with certain exception to retiring employees. Agency banks are advised to exercise utmost caution and ensure that interest is not paid on investment in excess of Rs. 2 lakh. Interest already paid on non-cumulative bonds should be recovered/adjusted from the principal amount at the time of repayment.

Post Maturity Interest

Agency banks should indicate to the investors that the investment does not carry post maturity interest, prominently in the above advices.

Discharge of Certificates

Designated branches are required to obtain the certificate of holding (COH) duly discharged at the time of repayment. If the COH contains multiple investments, discharge on COH should not be insisted upon. The certificates of holding/ certificates of investment (COHs / COIs) submitted by the investors should be verified with the BLAs. A stamped receipt obtained from the BLA holder in the prescribed format should be treated as discharge certificate and preserved. Agency banks should ensure that all required details are furnished in the receipt before making the payment.

Investors are required to furnish the particulars of their PAN/GIR number, or a declaration in Form No 60 in case they do not have PAN/GIR number, if the amount of repayment exceeds Rs. 1 lakh.

Payment

- The actual payment of the discharge value should be made only on the due date, or later if the receipt is submitted after the due date of maturity. If a holiday is declared by the state government under the Negotiable Instruments Act, 1881 on the maturity date or if the maturity date falls on a Sunday, payment of the maturity proceeds should be made on the previous working day.
- Repayment should be made only by the bank branch concerned, maintaining the BLA and the details of closure of the investment(s) i.e. date(s) and amount(s) should invariably be indicated in the BLA, duly authenticated by the supervising official.
- If multiple investments are made against the same BLA, the repayment /closure of individual investment should be marked off under authentication of an official and should reflect in the BLA. A statement of holding indicating the BLA number, date of maturity and amounts in respect of individual investments should be generated and given to the investor along with his COH. It should be ensured that the outstanding balance appearing in the BLA and the statement of holding are the same.
- Payment should be made either by crediting the investor’s savings bank account or by issuing a payment order depending on whether the investor maintains an account with the bank or not. Payment can also be made as per the mandate of the investor under ECS/EFT. If the investor desires to receive the maturity proceeds by post, it should be dispatched by speed/registered post, so as to reach him at least one day in advance from the date of maturity.

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POLICY

Third Quarter Review of Annual Statement on Monetary Policy for 2006-07 : Highlights

Dr. Y.V.Reddy, Governor, presented the Third Quarter Review of the Annual Policy Statement for 2006-07 on January 31, 2007. The highlights are :

Stance

- Real GDP growth for 2006-07 is expected to be 8.5-9.0 per cent as compared with 8.0 per cent projected in the Mid-Term Review, and 7.5-8.0 per cent in the Annual Policy Statement and the First Quarter Review.
- The objective of the policy measures being undertaken at the current juncture would be to bring inflation as close as possible to the stated range of 5.0-5.5 per cent at the earliest, while continuing to pursue the medium-term goal of a ceiling on inflation at 5.0 per cent.
- The probability of current levels of international crude prices being maintained is high, though some geopolitical risks remain.
- The conduct of monetary policy is currently confronted with three important issues: first, demand pressures appear to have intensified, reflected in rising inflation, high money and credit growth, elevated asset prices, strains on capacity utilisation, some indications of wage pressures and widening of the trade deficit; second, there are increased supply-side pressures in evidence from prices of primary articles; and third, monetary policy will have to contend with the lagged response of productive capacity and infrastructure to the ongoing expansion in investment.
- Bank credit continues to grow at a rapid pace for the third year in succession and the rates of growth are clearly excessive, warranting measures to moderate growth even after accounting for the relatively low level of credit penetration in our country and the structural transformation of the economy that is underway.
- The continued high credit growth in the real estate sector, outstanding credit card receivables, loans and advances qualifying as the capital market exposure and personal loans, is a matter of concern. It has, therefore, become imperative to increase the provisioning requirement for these standard assets (excluding residential housing loans) to two per cent from one per cent.
- Further, it has been decided to increase the provisioning requirement for the banks' exposures in the standard assets category to the non-deposit taking systemically important non-banking financial companies (NBFCs) to two per cent from 0.4 per cent as also the risk weight for the banks' exposure to such NBFCs to 125 per cent from 100 per cent.
- There is merit in moderating additions to liquidity from large capital inflows and hence, it has been decided to reduce the interest rate ceiling on NRE deposits from 100 basis points to 50 basis points above LIBOR/SWAP rates for US dollar of corresponding maturity, and also to reduce the interest rate ceiling on FCNR(B) deposits from LIBOR/SWAP rates to 25 basis points below LIBOR/SWAP rates for respective currency/ maturities.
- In order to avoid upward pressure on asset prices in sensitive sectors through utilisation of these facilities, banks are being restrained from granting fresh loans, in excess of Rs. 20 lakh, against the NRE and FCNR(B) deposits and also being advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.
- Over the remaining part of the year, management of liquidity would receive priority in the policy hierarchy. Consequent upon the tightening of market liquidity, the impact of monetary policy is expected to be stronger than before.
- The Reserve Bank would use all policy instruments, including the CRR, to ensure the appropriate modulation of liquidity in responding to the evolving situation; and to ensure the maintenance of price stability.
- The Reserve Bank will ensure that appropriate liquidity is maintained in the system so that all legitimate requirements of credit are met, particularly for productive purposes, consistent with the objective of price and financial stability. Towards this end, the Reserve Bank will continue with its policy of active demand management of liquidity through open market operations (OMO) including the 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 in the period ahead will be:
    - To reinforce the emphasis on price stability and well anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
    - To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
    - To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations and the growth momentum.

Monetary Measures

- Repo rate increased to 7.50 per cent from 7.25 per cent.
- Reverse repo rate, bank rate and cash reserve ratio (CRR) kept unchanged.
- The flexibility to conduct overnight or longer term repo including the right to accept or reject tender(s) under the liquidity adjustment facility (LAF), wholly or partially, retained.
- GDP growth forecast at 8.5-9.0 per cent during 2006-07.
- Inflation to be brought down as close as possible to 5.0-5.5 per cent at the earliest, while continuing to pursue the medium-term goal of a ceiling on inflation at 5.0 per cent.

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- Provisioning requirement increased to two per cent for standard assets in the real estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans (excluding residential housing loans).
- Provisioning requirement increased to two per cent for banks' exposures in the standard assets category to the non-deposit taking systemically important non-banking financial companies (NBFCs).
- Risk weight increased to 125 per cent for banks' exposure to non-deposit taking systemically important NBFCs.
- Interest rate ceiling on NRE deposits reduced from 100 basis points to 50 basis points above LIBOR/SWAP rates for US dollar of corresponding maturity.
- Interest rate ceiling on FCNR(B) deposits reduced from LIBOR/SWAP rates to 25 basis points below LIBOR/SWAP rates for respective currency/ maturities.
- Banks restrained from granting fresh loans, in excess of Rs. 20 lakh, against NRE and FCNR(B) deposits and advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.
- The Reserve Bank would use all policy instruments, including the CRR, to ensure the appropriate modulation of liquidity in responding to the evolving situation.
- The Reserve Bank would continue with its policy of active demand management of liquidity through open market operations (OMO) including the MSS, LAF and CRR, and using all the policy instruments at its disposal flexibly, as and when the situation warrants.

CRR Increased

Subsequent to the third quarter review, the Reserve Bank on February 13, increased the cash reserve ratio (CRR) maintained by scheduled commercial banks by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages. This hike was effective from the fortnights as indicated below:

Effective Date (i.e., the fortnight beginning from)	CRR on Net Demand and Time Liabilities *(per cent)*
February 17, 2007	5.75
March 3, 2007	6.00

Repayment of 8% Relief Bonds, 2002
(continued from page 2)

Payment Order

In case of repayment by issuance of payment order, agency banks should ensure that the payment orders bearing the dates of redemption are prepared and kept ready/dispatched in case of request, so as to reach the holder at least one day in advance and for senior citizens, three days in advance.

Interest Payments

As regards BLAs held under non-cumulative scheme, the interest for last broken period should be paid along with the principal. The interest warrants pertaining to such investments should be dispatched on the due date of maturity irrespective of whether the investor has surrendered the COH/COI/ discharge receipt for repayment or not. While dispatching such interest warrants of matured BLAs, the covering letter addressed to the investor should indicate that the investment has matured on the specific date. The advices to the investors should invariably contain the legend "Interest will not accrue on the investment after ——/ ——/ —— (date of maturity)".

Accounting

The principal and the interest should be separately accounted for and the scrolls drawn separately and kept on records for audit/ verification in terms of the extant instructions issued from time to time.

Reporting to Government of India

The designated branches should submit a statement showing the payments and outstanding in respect of the BLAs under the scheme on monthly basis to the Controller of Accounts, Department of Economic affairs, Ministry of Finance, Government of India, New Delhi through their Link Office. The repayment scrolls pertaining to the principal and the interest should be drawn separately as per Appendix XI & XII of MOP (Memorandum of Procedure) for this purpose.

Reporting to PDO of jurisdiction

The monthly report sent to the PDO of jurisdiction by Link Cell should invariably contain the details of repayments in part D of Appendix IV. The repayment scrolls pertaining to the principal and the interest drawn separately as per Appendix XII of MOP for the month as above may also be submitted alongside.

Reimbursement from CAS Nagpur

The agency banks / SHCIL (Stock Holding Corporation of India Limited) must prefer claims in the format for reimbursement as per paragraph 1.14 and 1.18 (section I) of MOP **only after repayments have been effected** by them. Such claims must be submitted electronically, through digitally signed emails, in the data structure(s) advised by CAS (Central Accounts Section), Nagpur, by the respective Link Cells. The claims must be duly supported by a certificate from the Internal / Concurrent Auditors to the effect that the repayment / interest figures have been checked 100% and that the amount have already been paid to the investors, in the format enclosed to this circular.

Advice to designated Banks

Since most of the branches have computerized their operations, the requisite system changes required to comply with the above instructions, may please be made well in advance to avoid any hassles at the operational level and to render better customer service to the investors.

The above instructions are illustrative and not exhaustive and should be read with the instructions in the MOP and circulars issued from time to time. In case of any specific doubts or queries on the above, the designated banks may please contact the PDO of jurisdiction.

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