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MONETARY AND CREDIT
INFORMATION REVIEW

Important Banking and Financial Developments in 2008

January

- Banks advised that education loans would be classified as non-consumer credit for the purpose of capital adequacy norms. Accordingly, the risk weight applicable to education loans would be 100 per cent and 75 per cent under Basel I and Basel II frameworks, respectively.
- With the prior approval of the central government, the Reserve Bank notified mortgage guarantee companies as non-banking financial companies. Further, mortgage guarantee companies exempted from the provisions of Section 45-IA (requirement of registration), Section 45-IB (maintenance of liquid assets) and Section 45-IC (creation and transfer to Reserve Fund a certain percentage of the net profit) of the RBI Act.
- Foreign institutional investors (FIIs) registered with the Securities Exchange Board of India (SEBI) and sub-accounts of FIIs permitted to short sell, lend and borrow equity shares of Indian companies subject to the conditions prescribed by the Reserve Bank/SEBI/other regulatory agencies.

February

- In view of loss of income suffered due to culling of birds as well as steep fall in the demand for poultry products and their prices, guidelines on relief measures to poultry industry issued.
- Guidelines on registration and operations of mortgage guarantee companies and prudential norms and investment directions as applicable to them, issued.

March

- Banks advised to allow their customers to use their own ATMs for any purpose for free and to use any other bank's ATM for balance enquiries for free. Furthermore, for use of other bank's ATM for cash withdrawal, banks not to increase the charges prevailing as on December 23, 2007 and those charging more than Rs.20 per transaction to reduce the charge to a maximum of Rs.20 per transaction by March 31, 2008 and to be made free from April 1, 2009.
- All commercial/co-operative banks advised to mandatorily route all payment transactions of Rs.1 crore and above between the Reserve Bank regulated entities, such as, banks/PDs and NBFCs through the electronic payment

mechanism from April 1, 2008. Furthermore, all payments of Rs.1 crore and above in the Reserve Bank regulated markets, such as, money market, government securities market and foreign exchange market also to be routed through the electronic payment mechanism from April 1, 2008.

- The definition of Tier I (primary urban co-operative banks UCBs) amended. As per the new definition, the following three categories of UCBs to be treated as Tier I banks (i) unit banks *i.e.*, UCBs having a single branch/head office and UCBs with deposits below Rs.100 crore, whose branches are located in a single district; (ii) UCBs with deposits below Rs.100 crore and having branches in more than one district, provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively of the bank; and (iii) UCBs with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district. All other UCBs are Tier II.

April

- The income criteria for availing loans under the differential rate of interest (DRI) scheme revised. Accordingly, borrowers with annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas would be eligible to avail this facility.
- Guidelines on new self employment scheme for rehabilitation of manual scavengers announced. The scheme contains provisions for capital subsidy, concessional loans and capacity building for rehabilitation of manual scavengers in alternative occupations.
- The limit for direct receipt of import bills/documents enhanced from USD 1,00,000 to USD 3,00,000 in the case of import of rough precious and semi-precious stones by non-status holder exporters.
- The Reserve Bank issued detailed guidelines regarding the policy, practice and procedure involved in the engagement of recovery agents by banks.
- For Tier I UCBs, the 180 day loan delinquency norm for non-performing assets (NPAs) extended by one year *i.e.*, up to March 31, 2009 and the 12 month period for classification of a sub-standard asset in doubtful category made effective from April 1, 2009 instead of April 1, 2008.

May

- Banks advised to classify 100 per cent of the credit outstanding under general purpose credit cards (GCCs) and overdrafts up to Rs.25,000 (per account) granted against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under priority sector.
- CRR to be maintained by scheduled banks increased to 8.25 per cent from the fortnight beginning May 24, 2008.
- Banks advised to formulate a policy for settling the claims of missing persons
- The Finance Minister in his Budget Speech (2008-09) had announced the Debt Waiver and Debt Relief Scheme for farmers. A detailed scheme in this regard notified for implementation by all scheduled commercial banks, besides RRBs and co-operative credit institutions.
- ECB policy reviewed and some aspects of the policy including the all-in-cost ceilings and those for borrowers from the infrastructure sector modified.
- UCBs other than those classified as grade III and IV and registered in states that have entered into MoU with the Reserve Bank or under the Multi State Co-operative Societies Act, 2002, permitted to undertake insurance business as corporate agent without risk participation, without the Reserve Bank's prior approval. The minimum net worth criteria, earlier applicable, dispensed with for such banks.
- Well managed and financially sound UCBs registered in states which have entered into MoU with the Reserve Bank or registered under the Multi-State Co-operative Societies Act, 2002 and classified in grades other than Grade III and IV, permitted to set up on-site ATMs without the Reserve Bank's prior approval.

June

- Entities in the service sector *viz.*, hotels, hospitals and software companies permitted to avail ECB up to USD 100 million, per financial year, for importing capital goods under the approval route.
- Banks advised to ensure that all banking facilities, such as, cheque book facility, including third party cheques, ATM, net banking, locker, retail loans, credit card, *etc.*, are invariably offered to the visually challenged without any discrimination.
- The threshold limit for mandatorily routing through the electronic payment systems all payment transactions between the Reserve Bank regulated entities in the Reserve Bank regulated markets, reduced to Rs.10 lakh from the earlier limit of Rs 1 crore from August 1, 2008.
- Banks advised that the government would provide interest subvention of 2 per cent per annum to public sector banks in respect of short-term production credit up to Rs.3 lakh provided to farmers. This amount of subvention would be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan became overdue *i.e.*, March 31, 2009 for *kharif* and June 30, 2009 for *rabi*, respectively, whichever was earlier.
- Branch licensing norms for well managed and financially sound UCBs in the states that have signed MoUs with the Reserve Bank and those registered under the Multi-State Coop Societies Act, 2002, liberalised. Approvals for branch expansion, including off-site ATMs, to be considered based

on their annual business plans, subject to certain conditions.

July

- Instructions issued to banks on the issue of unsolicited credit cards and provision of insurance cover to credit card holders.
- The fixed repo rate under the liquidity adjustment facility (LAF) increased by 50 basis points from 8.5 per cent to 9.0 per cent.
- CRR to be maintained by scheduled banks increased by 25 basis points to 9.0 per cent from the fortnight beginning August 30, 2008.
- Foreign companies permitted to open an additional foreign currency account for each project office (established under the Reserve Bank's general/specific approval) subject to the same terms and conditions as applicable to the existing foreign currency account.

August

- The Reserve Bank advised that from November 1, 2008, all exchange earners' foreign currency (EEFC) accounts would be permitted to be opened and maintained in the form of non-interest bearing current accounts. Earlier, in October 2007, as a temporary measure, exporters were permitted to earn interest on EEFC accounts to the extent of outstanding balances of USD 1 million per exporter.
- Banks advised that the eligibility income criteria of Rs.24,000 for urban areas under the DRI scheme made applicable to semi-urban areas also.
- Directives on the trading of currency futures in recognised exchanges issued.
- Banks advised about the eligibility criteria to become trading/clearing members of SEBI-approved exchanges.
- Final guidelines on prudential norms for off-balance sheet exposure of banks issued.
- Banks issued detailed instructions regarding display of information through comprehensive notice boards.
- Banks advised that companies registered under Section 25 of the Companies Act, 1956, could be employed as BCs provided the companies were stand-alone entities or Section 25 companies in which NBFCs, banks, telecom companies and other corporate entities or their holding companies did not have equity holdings in excess of 10 per cent. Further, while engaging Section 25 companies as BCs, banks should strictly adhere to the distance criterion of 15 kms/5 kms, as applicable, between the place of business of the BC and the branch.
- NBFCs-ND-SI advised to achieve 12 per cent CRAR by March 31, 2009 and 15 per cent CRAR by March 31, 2010.

September

- The procedures for reimbursement of claims and audit of claims under the Agricultural Debt Waiver and Debt Relief Scheme, 2008 modified.
- Banks advised to adopt the format devised by the Reserve Bank for display of information relating to interest rates and service charges to enable customers to obtain the desired information at a quick glance. Banks to also ensure that only the latest updated information in the given

format was placed on their websites and was easily accessible from the home page of their website.

- Banks advised to strengthen their information back-up about borrowers enjoying credit facilities from multiple banks through a set of measures prescribed by the Reserve Bank.
- ECB policy reviewed and some aspects of the policy including the all-in-cost ceilings and those for borrowers from the infrastructure sector modified.
- AD category-1 banks informed that the 'Issue of Foreign Currency Exchangeable Bonds (FCEB) Scheme, 2008' had been notified by the Government of India on February 15, 2008. Accordingly, it was decided to operationalise the scheme in order to facilitate the issue of FCEB by Indian companies.
- The limit for advance remittance for all admissible current account transactions for import of services without bank guarantee, raised from USD 100,000 to USD 500,000 or its equivalent.
- Guidelines on liquidity risk management issued to Tier I UCBs.
- AD category I banks permitted to make remittances for imports where the import bills/documents have been received directly by the importer from the overseas supplier and the value of the import bill does not exceed USD 300,000.
- UCBs recognised as authorised dealers category I and II permitted to participate in designated currency futures exchanges recognised by SEBI as clients only, for the purpose of hedging their underlying forex exposures.
- National electronic clearing service (NECS) inaugurated at the Reserve Bank's National Clearing Centre (NCC), Mumbai. The service aims to centralise the electronic clearing service (ECS) operation and bring in uniformity and efficiency to the system. NECS (Credit) to facilitate multiple credits to beneficiary accounts destination branch at participating centre against a single debit of the account of a user with the sponsor bank. NECS (Debit) to facilitate multiple debits to destination account holders against single credit to user account.

October

- Operating guidelines for banks regarding mobile banking transactions issued.
- Issues regarding asset classification status of overdue payments in respect of derivative transactions and re-structuring of derivative contracts examined and guidelines issued.
- Some aspects of the ECB policy including the end-use for telecom sector, the limit for per borrower per financial year for rupee/foreign currency expenditure for permissible end-uses under the automatic route and the all-in-cost ceilings for ECBs of various maturities modified
- The all-in-cost ceiling for trade credits with maturity up to one year and between one and three years revised to 200 basis points above 6-month LIBOR. The all-in-cost ceiling for trade credits with maturity up to one year and between one and three years revised to 200 basis points above 6-month LIBOR.
- Taking into consideration, the need for enhanced funds for

increasing business and meeting regulatory requirements, NBFCs-ND-SI permitted to augment their capital funds by issue of perpetual debt instruments (PDI) subject to certain conditions.

- The Reserve Bank prescribed the service charges to be levied by banks for offering various electronic products and for outstation cheque collection service.

November

- Banks/FIs advised to ensure that all information relating to charges/fees for processing are invariably disclosed in the loan application forms. Banks/FIs also advised to inform 'all-in-cost' to the customer to enable him to compare the rates charged with other sources of finance.
- The provisioning requirements for all types of standard assets reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and small and medium enterprises (SME) sectors, which would continue to attract a provisioning of 0.25 per cent.
- The risk weights for banks' claims on corporates, those secured by commercial real estate and the claims on NBFC-ND-SI revised. All unrated claims, long term as well as short term, regardless of the amount of claim, on corporates to attract a uniform risk weight of 100 per cent; claims secured by commercial real estate to attract a risk weight of 100 per cent as against the earlier risk weight of 150 per cent; and claims on rated as well as unrated NBFC-NDSI (other than AFCs), regardless of the amount of claim, to be uniformly risk weighted at 100 per cent.
- The conditions applicable to regional rural banks (RRBs) for opening new branches modified. According to the revised conditions, to become eligible for opening new branch/es the RRB should (i) not have defaulted in maintenance of SLR and CRR during the last two years; and (ii) be making operational profits, its net worth should show improvement and its NPA ratio should not exceed 8 per cent.

December

- Interest subvention of 2 percentage points extended from December 1, 2008 till March 31, 2009 on pre and post shipment rupee export credit, for certain employment oriented export sectors, viz, textiles (including handloom), handicrafts, carpets, leather, gems and jewellery, marine products, and small and medium enterprises. Accordingly, banks to charge interest rate not exceeding BPLR minus 4.5 percentage points on pre-shipment credit up to 270 days and post-shipment credit up to 180 days on the outstanding amount for the period December 1, 2008 to March 31, 2009 to these sectors.
- ADs Category I & II and FFCs permitted to accept payments made by travellers through debit cards/credit cards/prepaid cards for travel abroad (for private visit or for any other purpose).
- Loans granted by banks to housing finance companies (HFCs), approved by the National Housing Bank for refinancing, for on-lending to individuals for purchase/construction of dwelling units to be classified under priority sector, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. However, the eligibility under this measure to be restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis.

RBI Measures for improving Domestic and Foreign Currency Liquidity

In response to emerging global developments, the Reserve Bank took a number of measures to augment domestic and forex liquidity and to enable banks to continue to lend for productive purposes while maintaining credit quality so as to sustain the growth momentum. The measures were :

- Cash reserve ratio (CRR) to be maintained by scheduled banks reduced to 6.5 per cent of their net demand and time liabilities from the fortnight beginning October 11, 2008. CRR further reduced by 100 basis points from 6.5 per cent to 5.5 per cent in two stages: by 50 basis points with effect from the fortnight beginning October 25, and by a further 50 basis points with effect from the fortnight beginning November 8, 2008.
- Statutory liquidity ratio (SLR) reduced to 24 per cent of NDTL with effect from the fortnight beginning November 8, 2008. Earlier, on September 16, 2008, scheduled banks, as a temporary and *ad hoc* measure permitted to avail additional liquidity support under the LAF to the extent of up to one per cent of their NDTL and seek waiver of penal interest.
- Repo rate under the LAF reduced by 100 basis points to 8.0 per cent from October 20, 2008. A further 50 basis points reduction effected in the repo rate from 8.0 per cent to 7.5 per cent from November 3, 2008.
- Under a special refinance facility, all scheduled commercial banks (excluding RRBs) provided refinance from the Reserve Bank equivalent up to 1.0 per cent of their NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days. On November 1, 2008, on a purely temporary and *ad hoc* basis, subject to review, banks allowed to avail liquidity support under the LAF through relaxation in the maintenance of SLR to the extent of up to 1.5 per cent of their NDTL. This relaxation in SLR to be used exclusively for the purpose of meeting the funding requirements of NBFCs and MFs.
- RBI conducted buy-back of market stabilisation scheme (MSS) dated securities so as to provide another avenue for injecting liquidity of a more durable nature into the system.
- The mechanism of special market operations (SMO) for public sector oil marketing companies instituted in June-July 2008 taking into account the extraordinary situation then prevailing in the money and forex markets would be instituted when the oil bonds become available.
- Special 14-day repo conducted every day up to a cumulative amount of Rs.60,000 crore (enhanced from earlier Rs.20,000 crore) with a view to enabling banks to

meet the liquidity requirements of mutual funds.

- SLAF conducted on a daily basis from September 17, 2008, till further notice.
- The Reserve Bank to sell foreign exchange (US dollar) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps. Entities with bulk forex requirements to approach the Reserve Bank through their banks for this purpose.
- Interest rates on FCNR (B) Deposits and NRE(R)A deposits increased by 100 basis points each to *libor*/swap rates plus 25 basis points and to *libor*/swap rates plus 100 basis points, respectively.
- ECB policy liberalised to permit USD 500 million per borrower per financial year for rupee expenditure and/or foreign currency expenditure for permissible end - uses under the automatic route. Accordingly, the requirement of minimum average maturity period of seven years for ECB of more than USD 100 million for rupee capital expenditure by borrowers in the infrastructure sector dispensed with.
- Banks allowed to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or USD 10 million, whichever is higher, as against the earlier limit of 25 per cent.
- To provide flexibility to Indian banks in managing their short-term funding requirements at their overseas offices, the Reserve Bank to provide forex liquidity to Indian public and private sector banks having foreign branches or subsidiaries, through forex swaps of tenors up to three months. This facility to be available on request from November 7, 2008 until further notice.
 - As a temporary measure, the Reserve Bank permitted systemically important non-deposit taking non-banking financial companies (NBFCs-ND-SI) to raise short term foreign currency borrowings under the approval route, subject to their complying with the prudential norms on capital adequacy and exposure norms.
- At the request of the Government, the Reserve Bank agreed to immediately provide the sum of Rs. 25,000 crore to commercial banks, RRBs and co-operative credit institutions under the Agricultural Debt Waiver and Debt Relief Scheme as the first instalment.
- Restrictions on banks and FIs to grant loans against certificates of deposits (CDs) and to buy-back their own CDs before maturity relaxed till further notice from October 14, 2008, only in respect of CDs held by mutual funds.

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Prosperous New Year*