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POLICY

Revised Guidelines on Priority Sector Lending

The Reserve Bank has revised the guidelines on priority sector lending - targets and classification. The highlights of the revised priority sector guidelines, which have become operational from July 20, 2012, are:

- Overall target under priority sector is retained at 40 per cent.
- The targets for both direct and indirect agricultural lending are kept unchanged at 13.5 per cent and 4.5 per cent of adjusted net bank credit, respectively.
- The following important activities, among others, form part of priority sector lending :
  - Loans to micro and small service enterprises up to Rs.1 crore and all loans to micro and small manufacturing enterprises.
  - Loans up to Rs. 25 lakh for housing in metropolitan centres of population above 10 lakh and Rs.15 lakh at other centres.
  - Loans to food and agro processing units.
  - Loans to individuals for educational purposes including for vocational courses up to Rs. 10 lakh in India and Rs. 20 lakh abroad.
  - Loans for housing projects exclusively for economically weaker sections and low income groups, provided the cost does not exceed Rs. 5 lakh per dwelling unit.
  - Loans to distressed farmers indebted to non institutional lenders.
  - Overdrafts up to Rs.50,000 in no-frills accounts.
  - Loans to state sponsored organisations for scheduled castes and scheduled tribes.
  - Loans to individuals for setting up of off-grid solar and other off-grid renewable energy solutions for households.
  - Loans to individuals other than farmers up to Rs. 50,000 to prepay their debt to non-institutional lenders.
  - Foreign banks having 20 or more branches in the country will be brought on par with domestic banks for priority sector targets in a phased manner over a maximum period of 5 years starting from April 1, 2013. They will be required to submit an action plan for achieving the targets over a specific time frame to be approved by the Reserve Bank.
- Foreign banks with less than 20 branches will have no sub-targets within the overall priority sector lending target of 32 per cent. This is expected to allow them to lend as per their core competence to any priority sector category.
- Bank loans to primary agricultural credit societies (PACS), farmers' service societies (FSS) and large adivasi multi-purpose co-operative societies (LAMPS) ceded to or managed/controlled by such banks for on-lending to farmers for agricultural and allied activities are included under direct agriculture.
- Investments by banks in securitised assets, outright purchases of loans and assignments to be eligible for classification under priority sector provided, the underlying assets qualify for priority sector treatment and the interest rate charged to the ultimate borrower by the originating entity does not exceed Base Rate of such bank plus 8 per cent per annum.

Priority sector loans sanctioned under the earlier guidelines i.e., prior to July 20, 2012 will continue to be classified under priority sector till maturity/renewal.

CONTENTS

	Page
POLICY	
Revised Guidelines on Priority Sector Lending	1
Interest Rates on NRE/NRO/FCNR(B) Accounts	2
PAYMENT SYSTEM	
Lower MDR for Debit Card Transactions	2
NEFT - Rationalisation of Customer Charges	2
UCBs	
Declaration of Dividend	3
Home Loans-Levy of Fore-closure Charges	3
FEMA	
Rebooking of Forward Contracts	3
Buyback/Prepayment of FCCBs	3
ECBs - Repayment of Rupee Loans	3
Foreign Investment in India	4
RBI awarded the 2012 Dufrenoy Prize	**3**
INFORMATION	
Disabling Cash Retraction Facility in ATMs	4

Interest Rates on NRE/NRO/FCNR(B) Accounts

Banks have been advised not to allow the benefit of additional interest rate on any type of deposits of non-residents. Accordingly, the discretion given to banks to allow the benefit of additional interest rate of one per cent per annum to their own staff, on deposits under non-resident (external) (NRE)/non-resident (ordinary) (NRO)/FCNR(B) accounts stands withdrawn.

PAYMENT SYSTEM

Lower MDR for Debit Card Transactions

With a view to encouraging the use of debit cards, especially at smaller merchants/service providers and location by way of lower merchant discount rate (MDR), it has been decided, in consultation with the stakeholders, to cap the MDR for transactions undertaken with debit cards as under:

- Not exceeding 0.75 per cent of the transaction amount for value up to Rs 2000.
- Not exceeding 1 per cent of the transaction amount for value above Rs 2000.

These directions will become operational from September 1, 2012.

NEFT - Rationalisation of Customer Charges

On a review and in consultation with stakeholders, it has been decided to rationalise the customer charges levied by banks for national electronic funds transfer (NEFT) transactions as under:

Value Band	Maximum Charges (exclusive of service tax)
Amounts up to Rs. 10,000	Rs. 2.50
Amounts from Rs.10,001 to Rs. 1 lakh	Rs. 5
Amounts above Rs. 1 lakh up to Rs. 2 lakh	Rs15
Amounts above Rs. 2 lakh	Rs.25

The above charges which are effective from August 1, 2012, are the maximum that can be recovered by banks from their customers, if they so desire. Banks have been advised to encourage customers to take advantage of this facility.

Priority Sector Lending Targets/Sub-targets for Domestic and Foreign Banks operating in India

Categories	Domestic Commercial Banks/Foreign Banks with 20 and above Branches	Foreign Banks with less than 20 Branches
Total priority sector	40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.
Total agriculture	18 per cent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher. Of this, indirect lending in excess of 4.5 per cent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, will not be reckoned for computing achievement under 18 per cent target. However, all agricultural loans under the categories 'direct' and 'indirect' will be reckoned in computing achievement under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.	No specific target. Forms part of total priority sector target.
Micro and small enterprises (MSEs)	(i) Advances to micro and small enterprises sector will be reckoned in computing achievement under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher. (ii) 40 percent of total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 5 lakh and micro (service) enterprises having investment in equipment up to Rs.2 lakh. (iii) 20 per cent of total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 5 lakh and upto Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs.2 lakh and up to Rs. 10 lakh.	No specific target. Forms part of total priority sector target.
Export credit	Export credit is not a separate category. Export credit to eligible activities under agriculture and MSE will be reckoned for priority sector lending under respective categories.	No specific target. Forms part of total priority sector target.
Advances to weaker sections	10 per cent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.	No specific target in the total priority sector target.

UCBs

Declaration of Dividend

The Reserve Bank has revised the criteria for primary urban co-operative banks (UCBs) declaring dividend without prior permission. Accordingly, UCBs may, henceforth, declare dividend subject to compliance with the following parameters:

(i) Capital to risk-weighted assets ratio (CRAR) norms as prescribed by the Reserve Bank should be complied with.

(ii) Net non-performing assets (NPAs) should be less than 5 per cent after making all necessary provisions (including provisions required as per assessment made by the Reserve Bank in the last inspection report).

(iii) There is no default in cash reserve ratio (CRR)/statutory liquidity reserve (SLR) during the year for which dividend is proposed.

(iv) All required provisions should be made for NPAs, investments and other assets as per prudential norms.

(v) The dividend is paid out of the net profit and after making all statutory and other provisions and adjustment for accumulated losses in full.

UCBs complying with all the above parameters except net NPA, and desirous of declaring dividend may approach the respective regional office of the Reserve Bank for permission for declaring dividend provided the net NPA is less than 10 per cent.

Home Loans-Levy of Fore-closure Charges

The Reserve Bank has advised that from June 26, 2012 UCBs should not charge foreclosure charges/pre-payment penalties on home loans on floating interest rate basis.

The Committee on Customer Service in Banks (Chairman: Shri M. Damodaran) had observed that foreclosure charges levied by banks on prepayment of home loans are resented upon by home loan borrowers across the board especially since banks were found to be hesitant in passing on the benefits of lower interest rates to the existing borrowers in a falling interest rate scenario.

FEMA

Rebooking of Forward Contracts

The Reserve Bank has advised that forward contract(s), booked by residents to hedge capital account transactions for tenor greater than one year, if cancelled with one AD Category I bank can be rebooked with another AD Category I bank, subject to the conditions that -

(i) the switch is warranted by competitive rates on offer, termination of banking relationship with the AD category I bank with whom the contract was originally booked;

(ii) the cancellation and rebooking are done simultaneously on the maturity date of the contract; and

(iii) the responsibility of ensuring that the original contract has been cancelled rests with the AD category I bank which undertakes rebooking of the contract.

The above flexibility in rollover of contracts by switching AD category banks on the maturity date of the contract, has been extended to all hedge transactions undertaken by residents.

Buyback/Prepayment of FCCBs

The Reserve Bank has advised that it will consider proposals from Indian companies for buyback of foreign currency convertible bonds (FCCBs) under the approval route subject to the conditions that -

- The buyback value of the FCCBs should be at a minimum discount of five per cent on the accreted value.
- In case the Indian company is planning to raise a foreign currency borrowing for buyback of the FCCBs, all FEMA rules/ regulations relating to foreign currency borrowing should be complied with.
- All other terms and conditions as stipulated in A.P. (DIR Series) Circular No. 39 dated December 8, 2008 will continue to be applicable.
- This facility has come into force from July 5, 2012 and the entire process of buyback should be completed by March 31, 2013 after which the scheme lapses.

On completion of the buyback, a report giving details of buyback, such as, the outstanding amount of FCCBs, accreted value of FCCBs bought back, rate at which FCCBs bought back, amount involved, and source/s of funds should be submitted to the Reserve Bank through the designated AD category - I bank.

ECBs – Repayment of Rupee Loans

It has been decided to allow Indian companies to avail of external commercial borrowings (ECBs) for repayment of rupee loan(s) availed of from the domestic banking system and/or for fresh rupee capital expenditure, under the approval route,

RBI awarded the 2012 Dufrenoy Prize

The Reserve Bank has been awarded the 2012 Dufrenoy Prize for its precautionary approach to the regulation of derivatives market, thus facilitating Financial Innovation in a responsible manner. Shri G Padmanabhan, Executive Director, and Smt. Shyamala Gopinath, former Deputy Governor, Reserve Bank of India received the award in a ceremony held in Paris on June 18, 2012.

The Dufrenoy Prize for Responsible Innovation is an annual award instituted by Observatory for Responsible Innovation. The Observatory – a MINES ParisTech Chair and an international independent think tank - has been created with the purpose of thinking and debating new measures, concepts and methods to foster responsibility in innovation. The MINES ParisTech was set up in 1783, and has two Nobel Prize winners among its alumni in the last 25 years, apart from other eminent national and international personalities. Nominations for the Dufrenoy award were invited through the Observatory web-site. A jury of international regulators, former professionals of the financial services industry, academics at the London School of Economics and MINES ParisTech decided to bestow the award for 2012 to the Reserve Bank of India for its outstanding approach towards financial regulation.

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subject to the conditions that -

(i) only companies in the manufacturing and infrastructure sector will be eligible to avail of such ECBs;

(ii) such companies should consistently earn foreign exchange during the past three financial years;

(iii) such companies are not in the Reserve Bank's default/caution list; and

(iv) such ECBs should only be utilised for repayment of rupee loan(s) availed of for 'capital expenditure' incurred earlier and are still outstanding in the books of the domestic banking system and/or for fresh rupee capital expenditure.

The overall ceiling for such ECBs shall be USD 10 billion. The maximum permissible ECB that can be availed of by an individual company will be limited to 50 per cent of the average annual export earnings realised during the past three financial years. Companies will be allowed to avail of ECBs based on their foreign exchange earnings and their ability to service the ECB. Companies should draw down the entire facility within a month after taking the loan registration number (LRN) from the Reserve Bank.

Companies desirous of availing of such ECBs should submit their applications through their designated authorised dealer bank with certification from the statutory auditor regarding the utilisation of rupee loan(s) with respect to 'capital expenditure' incurred earlier. The statutory auditor should also certify that the company is a consistent foreign exchange earner during the past three financial years. The outstanding rupee loan(s) should be duly certified by the domestic lending bank(s) concerned and the designated authorised dealer bank. The AD should ensure that the foreign exchange for repayment of ECB is not accessed from Indian markets and the liability arising out of the ECB is extinguished only out of the foreign exchange earnings of the borrowing company. The designated AD - category I bank should monitor the end-use of funds. Bank(s) in India will not be permitted to provide any form of guarantee(s).

Foreign Investment in India

FIIs

Investment in Government Securities

The existing limit for investment by Securities and Exchange Board of India (SEBI) registered foreign institutional investors (FIIs) in government securities (G-Secs) has been enhanced by a further amount of USD 5 billion. This would take the overall limit for FII investment in G-Secs from USD 15 billion to USD 20 billion. In order to broad base the non-resident investor base for G-Secs, it has also been decided to allow long term investors like sovereign wealth funds (SWFs), multilateral agencies, endowment funds, insurance funds, pension funds and foreign central banks to be registered with SEBI, to also invest in G-Secs for the entire limit of USD 20 billion. The sub-limit of USD 10 billion (existing USD 5 billion with residual maturity of 5 years and additional limit of USD 5 billion) would have the residual maturity of three years.

Infrastructure Debt

The terms and conditions for the scheme for FII investment in infrastructure debt and the scheme for non-resident investment in infrastructure development funds (IDFs) have been further rationalised in terms of lock-in period and residual maturity as indicated below:

- the lock-in period for investments under this limit has been uniformly reduced to one year; and
- the residual maturity of the instrument at the time of first purchase by an FII/eligible IDF investor would be at least fifteen months.

QFIs

Qualified foreign investors (QFIs) can now invest in those mutual fund (MF) schemes that hold at least 25 per cent of their assets (either in debt or in equity or both) in infrastructure sector under the current USD 3 billion sub-limit for investment in MFs related to infrastructure.

INFORMATION

Disabling Cash Retraction Facility in ATMs

During the past one year, banks had reported several instances of fraud pertaining to cash retraction. The modus operandi is to forcibly hold on to a few pieces of notes in ATM machines that have cash retraction system, while allowing one or two pieces of notes to be retracted and then claiming non-receipt of cash. Since retracted transactions are credited back to the customer's account, the balance in the fraudster's account remains unaffected even after collecting bulk of the delivered cash. Presently, ATMs do not have thecapability to count the pieces of retracted notes.

This matter was discussed at a special meeting of the National Financial Switch Steering Committee. One of the possible solutions suggested at the meeting was to disable the cash retraction facility in ATMs. The Reserve Bank has accepted this suggestion and has granted approval for disabling cash retraction facility in ATMs.

Banks have also been advised to -

- educate the customer on the consequences of cash retraction and the reasons for disabling this facility;
- display information regarding disabling cash transaction at each and every ATM location and ensure wide propagation. The message should be flashed on the ATM machine before the transaction is conducted;
- draw a time plan by identifying the fraud prone areas to start with and complete the activity within the timeframe; and
- ensure that new ATMs being installed do not provide cash retraction features.

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