R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2012-14

Monthly Subscription : ₹ 1.

Volume IX ◆ Issue 3
September 2012

MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Interest Subvention extended to Housing Loans

The Government of India has extended the scheme of 1 per cent interest subvention to housing loans up to Rs.15 lakh where the cost of the house does not exceed Rs.25 lakh. The scheme will remain in force up to March 31, 2013.

The National Housing Bank (NHB) is the sole nodal agency for implementation of the scheme for scheduled commercial banks, regional rural banks and housing finance companies.

Banks have been advised to implement the scheme vigorously, submit their claims to NHB expeditiously and extend the benefits of the scheme to all eligible borrowers/ beneficiaries. Banks have also been advised to give wide publicity to the scheme.

CRR Reduced

The cash reserve ratio (CRR) required to be maintained by scheduled commercial banks has been reduced by 25 basis points from 4.75 per cent to 4.50 per cent of their net demand and time liabilities (NDTL) with effect from the fortnight beginning September 22, 2012.

Bank Finance to Factoring Companies

Banks can now extend financial assistance to support the factoring business of factoring companies provided -

(a) The companies qualify as factoring companies and carry out their business under the provisions of the Factoring Regulation Act, 2011 and notifications issued by the Reserve Bank in this regard from time to time.

(b) The companies derive at least 75 per cent of their income from factoring activity.

(c) The receivables purchased/financed, irrespective of whether on 'with recourse' or 'without recourse' basis, form at least 75 per cent of the assets of the factoring company.

(d) The assets/income referred to above would not include the assets/income relating to any bill discounting facility extended by the factoring company.

(e) The financial assistance extended by the factoring companies is secured by hypothecation or assignment of receivables in their favour.

Effective NPA Management

With a view to improving banks' ability to manage their non-performing assets (NPAs) and restructured accounts in an effective manner and considering that almost all branches of banks have been fully computerised, the Reserve Bank has advised banks to:

- review their existing IT and MIS framework and put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level (asset class, industry, geographic, size, etc.). Such early warning signals should be used for putting in place an effective preventive asset quality management framework, including a transparent restructuring mechanism for viable accounts under distress within the prevailing regulatory framework.
- have system generated segment wise information on NPAs and restructured assets which may include data on the opening balances, additions, reductions (upgradations, actual recoveries, write-offs etc.), closing balances, provisions held, technical write-offs, etc.

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PAYMENT SYSTEM

Issue of CTS 2010 Standard Cheques

To ensure time-bound migration to CTS-2010 standard cheque formats, all banks have been advised to -

- Issue only multi-city/payable at par CTS-2010 standard cheques not later than September 30, 2012.
- Withdraw the non-CTS-2010 standard cheques in circulation before December 31, 2012 by creating awareness among customers through SMS alerts, letters, display boards in branches/ATMs, log-on message in internet banking, notification on the web-site, etc.
- Replace the post-dated equated monthly instalment (EMI) non-CTS-2010 standard cheques (received either on their own behalf or on behalf of their NBFC clients), with CTS-2010 standard cheques before December 31, 2012.

It may be recalled that in December 2011, banks providing cheque facility to their customers were advised to issue only 'CTS-2010' standard cheques in a time bound action plan not later than September 30, 2012. It is, however, observed that non-CTS-2010 standard cheque forms continue to be issued by many banks even in regions which form part of the northern (New Delhi) and southern (Chennai) CTS grids. Adherence to CTS-2010 standards has inherent advantages as the security features in cheque forms help the presenting banks to identify the genuineness of the drawee banks' instruments while handling them in the image based scenario. The homogeneity in the security features act as deterrent against frauds, and the fixed field placement specifications facilitate straight-through-processing at drawee banks' end through the use of optical/image character recognition technology.

Gross NPAs/Gross NPAs to Gross Advances of Nationalised Banks as on June 2012

Bank	Gross NPAs (Rs. in crore)	Gross NPAs to Gross Advances (per cent)
Allahabad Bank	2,170	2.06
Andhra Bank	2,280	2.63
Bank of Baroda	4,696	2.35
Bank of India	5,769	3.15
Bank of Maharashtra	1,294	2.24
Canara Bank	4,347	2.03
Central Bank of India	7,510	4.87
Corporation Bank	1,689	1.71
Dena Bank	1,076	1.80
IDBI Bank Limited	5,496	3.37
Indian Bank	1,358	1.54
Indian Overseas Bank	4,008	3.09
Oriental Bank of Commerce	3,499	3.07
Punjab & Sind Bank	826	1.74
Punjab National Bank	9,118	3.33
Syndicate Bank	3,100	2.76
UCO Bank	4,507	4.20
Union Bank of India	6,471	3.96
United Bank of India	2,131	3.35
Vijaya Bank	1,693	2.85
Total	**73,038**	**2.94**

Source : Parliament Questions

White Label ATMs in India

The Reserve Bank has clarified that non-bank entities seeking authorisation from the Reserve Bank for setting up white label ATMs, and wishing to infuse capital can do so provided, they submit a certificate from a chartered accountant that additional capital has been infused to satisfy the criterion of net-worth of Rs. 100 crore. The certificate should be submitted by the existing chartered accountant who has audited the entity's last balance sheet or a chartered accountant who has conducted a limited review of the accounts of the last quarter/half-year.

The Reserve Bank has been receiving queries from non bank entities, whether infusion of capital to satisfy the criteria of net worth of Rs 100 crore would be considered if the capital is infused after the entities' balance sheet has been audited.

FEMA

Foreign Direct Investment

The extant foreign direct investment (FDI) policy has been reviewed and it has been decided to permit FDI up to -

(a) 100 per cent in single-brand product retail trading by only one non-resident entity, whether owner of the brand or otherwise, under the government route.

(b) 51 per cent in multi-brand retail trading under the government route.

(c) 49 per cent by foreign airlines in the capital of indian companies in civil aviation sector, operating scheduled and non-scheduled air transport, under the automatic/government route.

(d) 49 per cent in power exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010, under the government route.

FDI limits in companies engaged in providing broadcasting carriage services under the automatic/government route have been reviewed and the same would be subject to the terms and conditions as stipulated in Press Note No. 7 (2012 Series) dated September 20, 2012 issued by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India.

Trade Credits for Import into India

Companies in the infrastructure sector, where "infrastructure" is as defined under the extant guidelines on external commercial borrowings (ECBs), are now allowed to avail of trade credit up to a maximum period of five years for import of capital goods, as classified by the Directorate General of Foreign Trade (DGFT), subject to the following conditions:

(i) the trade credit must be *abinitio* contracted for a period not less than fifteen months and should not be in the nature of short-term roll overs; and

(ii) authorised dealer (AD) banks are not permitted to issue letters of credit/guarantees/letter of undertaking (LoU)/letter of comfort (LoC) in favour of overseas supplier, bank and financial institution for the extended period beyond three years.

The all-in-cost ceilings of trade credit will be as below:

Maturity Period	All-in-Cost Ceilings over 6 Months LIBOR*
Up to one year	350 basis points
More than one year and up to three years	
More than three years and up to five years	

* for the respective currency of credit or applicable benchmark

The all-in-cost ceilings include arranger fee, upfront fee, management fee, handling/processing charges, out of pocket and legal expenses, if any.

Bridge Finance for Infrastructure Sector

As per the extant guidelines, Indian companies in the infrastructure sector, have been allowed to import capital goods by availing of short term credit (including buyers'/suppliers' credit) in the nature of 'bridge finance', under the approval route, subject to certain conditions.

On a review, it has been decided to allow refinancing of such bridge finance (if in the nature of buyers'/suppliers' credit) availed of, with an ECB under the automatic route, subject to the conditions that -

(i) the buyers'/suppliers' credit is refinanced through an ECB before the maximum permissible period of trade credit;

(ii) the AD evidences the import of capital goods by verifying the bill of entry;

(iii) the buyers'/suppliers' credit availed of complies with the extant guidelines on trade credit and the goods imported conform to the DGFT policy on imports; and

(iv) the proposed ECB complies with all the other extant guidelines relating to availment of ECB.

Borrowers may approach the Reserve Bank under the approval route only at the time of availing of bridge finance which will be examined subject to conditions.

The designated AD - Category I bank should monitor the end-use of funds. Banks in India will not be permitted to provide any form of guarantees for the ECB. All other conditions of ECB, such as, eligible borrower, recognised lender, all-in-cost, average maturity, end-use, maximum permissible ECB per financial year under the automatic route, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged and should be complied with.

Rupee Loans/Rupee Capital Expenditure

The maximum permissible limit of ECB that can be availed of by an individual company has been enhanced to 75 per cent of the average foreign exchange earnings realised during the immediate past three financial years or 50 per cent of the highest foreign exchange earnings realised in any of the immediate past three financial years, whichever is higher.

In case of special purpose vehicles (SPVs), which have completed at least one year of existence from the date of incorporation and do not have sufficient track record/past performance for three financial years, the maximum permissible ECB that can be availed of would be limited to 50 per cent of the annual export earnings realised during the past financial year.

The maximum ECB that can be availed by an individual company or group, as a whole, under this scheme would be restricted to USD 3 billion.

Issue of IDRs - Limited Two Way Fungibilty

It has now been decided to allow limited two way fungibility for indian depository receipts (IDRs) similar to the limited two way fungibility facility available for american depository receipts (ADRs)/global depository receipts (GDRs) subject to the following terms and conditions:

(i) Conversion of IDRs into underlying equity shares would be governed by the conditions mentioned in A.P. (DIR Series) Circular No. 5 dated July 22, 2009.

(ii) Fresh IDRs would continue to be issued in terms of the provisions of A.P. (DIR Series) Circular No. 5 dated July 22, 2009.

(iii) Re-issuance of IDRs would be allowed only to the extent of IDRs that have been redeemed/converted into underlying shares and sold.

(iv) There would be an overall cap of USD 5 billion for raising of capital by issuance of IDRs by eligible foreign companies in Indian markets. This cap would be akin to the caps imposed for foreign institutional investor (FII) investment in debt securities and would be monitored by the Securities and Exchange Board of India (SEBI).

The issuance, redemption and fungibilityof IDRs would also be subject to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended from time to time as well as other relevant guidelines issued in this regard by the Government, SEBI and the Reserve Bank from time to time.

Foreign Investment by QFIs - Hedging Facilities

Qualified foreign investors (QFIs) have been allowed to hedge their currency risk on account of their permissible investments (in equity and debt instruments). The details of such hedging facility are -

Purpose

- To hedge the currency risk on the market value of entire investment in equity and/or debt in India as on a particular date.
- To hedge initial public offers (IPOs) related transient capital flows under the 'application supported by blocked amount' (ASBA) mechanism.

Operational Guidelines/Terms/Conditions

(a) QFIs may hedge the currency risk on account of their permissible investments with the AD Category-I bank with whom they are maintaining the rupee account opened for the purpose of investment.

(b) The eligibility for cover may be determined on the basis of the declaration of the QFI with periodic review undertaken by the AD Category I bank based on the investment value as provided/certified by QDP of the QFI at least at quarterly intervals, on the basis of market price movements, fresh inflows, amounts repatriated and other relevant parameters to ensure that the forward cover outstanding is supported by underlying exposures.

(c) If a hedge becomes naked in part or in full owing to contraction of the market value of the portfolio, for reasons other than sale of securities, the hedge may be allowed to continue till the original maturity, if so desired.

(d) The contracts, once cancelled cannot be rebooked. The forward contracts may, however, be rolled over on or before maturity.

(e) The cost of hedge should be met out of repatriable funds and/ or inward remittance through normal banking channel.

(f) All outward remittances incidental to the hedge are net of applicable taxes.

(g) For IPO related transient capital flows -

(i) QFIs can undertake foreign currency-rupee swaps only for hedging the flows relating to the IPO under the ASBA mechanism.

(ii) The amount of the swap should not exceed the amount proposed to be invested in the IPO.

(iii) The tenor of the swap should not exceed 30 days.

(iv) The contracts, once cancelled, cannot be rebooked. Rollovers under this scheme will also not be permitted

Liaison/Branch/Project Office in India

The Reserve Bank has clarified that permission to establish offices in India by foreign non-government organisations/non-profit organisations/foreign government bodies/departments, by whatever name called, are under the government route. Accordingly, such entities are required to apply to the Reserve Bank for prior permission to establish an office in India, whether project office or otherwise.

Steps Taken to Increase Availability of Credit to Rural Areas

The Government has taken several policy measures from time to time to increase the availability of institutional credit to farmers. These, *inter-alia,* include :

- As per the Reserve Bank's guidelines on lending to priority sector, a target of 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures (OBE), whichever is higher, as on March 31 of the previous year, has been mandated for lending to the priority sector by domestic scheduled commercial banks, both in the public and private sector. Within this, a sub-target of 18 per cent of ANBC or credit equivalent amount of OBE, whichever is higher, as on March 31 of the previous year, has to be lent to the agriculture sector.
- The Government has been setting an annual target for the flow of credit to the agriculture sector. The agriculture target for 2012-13 is fixed at Rs. 5,75,000 crore against the target of Rs. 4,75,000 crore in 2011-12.
- The Government of India has been implementing the interest subvention scheme since 2006-07 to make short-term crop loans up to Rs. 3 lakh for a period of one year available to farmers at an interest rate of 7 per cent per annum. Since 2009-10, the Government of India has been providing additional interest subvention to prompt payee farmers. The additional subvention was 1 per cent in 2009-10, 2 per cent in 2010-11 and 3 per cent in 2011-12. The Government has, in the Budget speech of 2012-13, announced continuation of these schemes in 2012-13.
- The Reserve Bank has advised banks to waive margin/ security requirements for agricultural loans up to Rs. 1,00,000.
- The Agricultural Debt Waiver and Debt Relief Scheme, 2008 was implemented by the Government. This Scheme has de-clogged the lines of credit that were clogged due to the debt burden on the farmers and has also made them eligible for fresh loans. Under the Scheme Rs. 52,275.55 crore has been released by the Government through the Reserve Bank and NABARD, benefiting 3.45 crore farmers.
- Banks have been advised to issue kisan credit cards (KCC) to all eligible farmers and general credit cards (GCC) to non-farmers. A new scheme for KCC has been circulated by NABARD which provides for KCC as an ATM card which can be used at ATM/point of sale (POS) terminals.
- Due to these initiatives of the Government, the number of farm loan accounts has increased from 482.30 lakh in 2009-10 to 646.57 lakh in 2011-12.

Source : Parliament Questions

Edited and published by **Alpana Killawala** for the **Reserve Bank of India,** Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001 and printed by her at **Onlooker Press,** 16, Sassoon Dock, Colaba, Mumbai - 400 005.

For renewal and change of address please write to the Chief General Manager, Department of Communication, 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