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MONETARY AND CREDIT
INFORMATION REVIEW

Important Banking and Financial Developments in 2011

January

- Repo rate under the liquidity adjustment facility (LAF) increased by 25 basis points from 6.25 per cent to 6.50 per cent from January 25, 2011.
- Reverse repo rate under the LAF increased by 25 basis points from 5.25 per cent to 5.50 per cent from January 25, 2011.
- The standing liquidity facilities provided to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 6.50 per cent from January 25, 2011.
- General permission granted to domestic scheduled commercial banks (other than RRBs) to open administrative offices and central processing centres (CPCs)/service branches in Tier- 3 to Tier- 6 centres (with population up to 49,999 as per census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim.
- NBFCs advised to make a general provision at 0.25 per cent of their outstanding standard assets.
- Full fledged money changers (FFMCs) and ADs Category-II [other than regional rural banks (RRBs), local area banks (LABs), urban co-operative banks (UCBs) and non-banking financial companies (NBFCs)], having a minimum net worth of Rs. 5 crore, permitted to participate in the designated currency futures and currency options on exchanges recognised by the Securities and Exchange Board of India (SEBI) as clients only for the purpose of hedging their underlying foreign exchange exposures.

February

- All public sector banks advised that the additional liability on account of re-opening of pension option for the employees who had not opted for pension earlier as well as the enhancement in gratuity limits should be fully recognised and charged to Profit and Loss Account for the financial year 2010-11.
- All deposit taking NBFCs advised to maintain a minimum capital ratio consisting of Tier I and Tier II capital, of not less than 15 per cent of their aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items from March 31, 2012.
- Banks advised that, the amount of loans wrongly classified under priority sector, identified and reported by principal inspecting officers during their annual financial inspection, should be taken into account for arriving at the shortfall under priority sector lending targets.
- All primary (urban) co-operative banks (UCBs) advised not to

invest in zero coupon bonds (ZCBs) unless the issuer builds up a sinking fund for accrued interest and keeps it invested in liquid investments/securities (government bonds).

- The Reserve Bank clarified that loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, are not eligible for classification under agriculture sector. Similarly, investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under agriculture sector.

March

- Trading of interest rate futures on 91- day treasury bills issued by Government of India permitted.
- Repo rate increased by 25 basis points from 6.50 per cent to 6.75 per cent from March 17, 2011.
- Reverse repo rate increased by 25 basis points from 5.50 per cent to 5.75 per cent from March 17, 2011.
- The standing liquidity facilities provided to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 6.75 per cent from March 17, 2011.
- Banks advised to put in place, latest by June 30, 2011, a system of online alerts for all types of transactions, irrespective of the amount, involving usage of debit/credit cards at various channels.
- All payment system providers, system participants and prospective prepaid payment instrument issuers advised that a job card issued by NREGA duly signed by an officer of the state government, and the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number should be considered as an officially valid document for identity when issuing semi-closed prepaid cards up to ₹5000.
- NBFCs prohibited from contributing capital to any partnership firms or to be partners in partnership firms. In cases of existing partnerships, NBFCs advised to seek early retirement from the partnerships firms.
- Eligible RRBs to open branches in Tier 3 to Tier 6 centres without the Reserve Bank's prior approval; to approach the Reserve Bank's Regional Office for post-facto automatic issue of the licence/s.

April

- RRBs given freedom to classify their entire investment portfolio of SLR securities under 'held to maturity' for the financial years 2010-11, 2011-12 and 2012-13 with valuation

on book value basis and amortisation of premium, if any, over the remaining life of the securities.

- All sponsor banks/RRBs advised to develop/modify the software package to ensure that the process of compounding of interest on agricultural loans falls in line with the extant instructions in this regard. RRBs also advised to re-examine the relevant cases and arrange to re-credit the excess interest wrongly charged in the accounts.
- In order to reduce the cost (interest cost on overdue export bills), exporters with overdue export bills permitted to extinguish their overdue post shipment rupee export credit from their rupee resources. The exporter's liability for realisation would continue till the export bill is realised.
- The scheme of interest subvention of 1 percent on housing loans liberalised by extending it to housing loans up to ₹15 lakh where the cost of the house does not exceed ₹25 lakh for housing loans. The earlier limits were ₹10 lakh and ₹20 lakh respectively.
- Custodian banks allowed to issue irrevocable payment commitments (IPCs) in favour of stock exchanges/clearing corporations of the stock exchanges, on behalf of their foreign institutional investor (FII) clients for purchase of shares under the portfolio investment scheme (PIS). Issue of IPCs should be in accordance with the Reserve Bank's regulations on banks' exposure to the capital market.

May

- Interest rate on domestic and ordinary non-resident savings deposits as well as savings deposits under non-resident (external) accounts scheme increased by 0.5 percentage point from 3.5 percent to 4.0 percent per annum from May 3, 2011.
- Repo rate under the liquidity adjustment facility (LAF) increased by 50 basis points from 6.75 per cent to 7.25 per cent from May 3, 2011.
- Reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, stood at 6.25 per cent from May 3, 2011.
- The limit of housing loans for being eligible for classification under priority sector enhanced from ₹20 lakh to ₹25 lakh. The increased limit would be applicable to housing loans sanctioned on or after April 1, 2011 to individuals for purchase/construction of dwelling unit per family, excluding loans granted by banks to their own employees.
- A new marginal standing facility (MSF) introduced from May 9, 2011. All scheduled commercial banks having current account and subsidiary general ledger (SGL) account with the Reserve Bank, Mumbai are eligible to participate in the MSF Scheme. The rate of interest on amount availed under this facility would be 100 basis points above the LAF repo rate, or as decided by the Reserve Bank from time to time.
- Bank credit to micro finance institutions (MFIs) extended on, or after April 1, 2011 for on-lending to individuals and also to members of self-help groups (SHGs)/joint liability groups (JLGs) would be eligible for categorisation as priority sector advance under respective categories, viz., agriculture, micro and small enterprise, and micro credit (for other purposes), as indirect finance, provided not less than 85 per cent of the total assets of the MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan extended for income generating activity, is not less than 75 per cent of the total loans given by the MFI.
- The limit for mobile banking transactions without end-to-end encryption increased to ₹5000 from the earlier limit of

₹1000. The revised limit is effective from May 4, 2011.

- UCBs permitted to lend up to an additional 5 per cent of their total assets for housing loans to individuals up to ₹15 lakh. Earlier, UCBs were permitted to lend up to 10 per cent of their total assets to housing, real estate and commercial real estate and an additional 5 per cent of total assets for purchase and construction of dwelling units costing up to ₹10 lakh.
- Powers delegated to AD Category – I banks to allow pledge of shares of an Indian company held by non-resident investor/s in accordance with the FDI policy.
- Provisioning requirements on certain categories of non-performing advances (NPAs) and restructured advances enhanced. The enhanced rates are – (i) secured portion of advances which have remained in "doubtful" category up to one year to attract a provision of 25 per cent; (ii) secured portion of advances which have remained in "doubtful" category for more than one year but up to 3 years to attract a provision of 40 per cent; (iii) restructured accounts classified as standard advances to attract a provision of 2 per cent in the first 2 years from the date of restructuring, or in cases of moratorium on payment of interest/principal after restructuring, for the period covering moratorium and 2 years thereafter; and (iv) restructured accounts classified as non-performing advances, when upgraded to standard category to attract a provision of 2 per cent in the first year from the date of upgradation.
- The time limit for resolution of customer complaints, regarding failed ATM transactions, by the issuing banks reduced from 12 working days to 7 working days from the date of receipt of customer complaint. Failure to re-credit the customer's account within 7 working days of receipt of the complaint would entail payment of compensation to the customer @ ₹100 per day by the issuing bank.
- The number of free transactions permitted per month at other bank ATMs to savings bank account holders to be inclusive of all types of transactions, financial or non-financial.

June

- UCBs allowed to lend to self help groups (SHGs) and joint liability groups (JLGs). Lending to SHGs/JLGs would be considered as a normal business activity of the bank. The comprehensive policy on lending to SHGs/JLGs framed with the Board's approval, including the maximum amount of loan, interest rate chargeable on loans etc., should form part of the overall credit policy of the bank.
- Repo rate increased by 25 basis points from 7.25 per cent to 7.50 per cent from June 16, 2011.
- Reverse repo rate adjusted to 6.50 per cent from June 16, 2011.
- Marginal standing facility rate adjusted to 8.50 per cent from June 16, 2011.
- The Reserve Bank issued guidelines for NBFCs desirous of opening branch/ subsidiary/joint venture/representative office or undertaking investment abroad.
- Clearing houses/processing centres permitted to levy processing charges on the originating banks. The charges, exclusive of service tax, are - (i) 25 paise for every outward transaction; and (ii) 25 paise for every return transaction. Originating banks to pay compensation to destination banks, exclusive of service tax, as follows: (i) 25 paise for every credit transaction; and (ii) 50 paise for every debit transaction.

July

- Banks advised to allocate at least 25 per cent of the total

number of branches proposed to be opened during a year, in unbanked rural centres while preparing their annual branch expansion plan. An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

- Repo rate under the LAF increased by 50 basis points from 7.5 per cent to 8.0 per cent from July 26, 2011.
- Reverse repo rate under the LAF, automatically adjusted to 7.0 per cent from July 26, 2011.
- The marginal standing facility rate, determined with a spread of 100 basis points above the repo rate, recalibrated at 9.0 per cent.
- The Reserve Bank advised that it would now be mandatory to open at least one third of the total number of branches proposed to be opened in Tier 3 to Tier 6 centres in underbanked districts of underbanked states.
- With a view to providing incentive to banks, for each branch proposed to be opened in Tier 3 to Tier 6 centres of underbanked districts of underbanked states, excluding the rural branches proposed to be opened in unbanked centres that may be located in underbanked districts of underbanked states, authorisation would be given for opening a branch in a Tier 1 centre.
- Non-resident importers and exporters allowed to hedge their currency risk in respect of exports from and imports to India, invoiced in Indian Rupees, with AD category I banks in India.
- The total investment by banks in liquid/short term debt schemes of mutual funds with weighted average maturity of portfolio of not more than 1 year, to be subject to a prudential cap of 10 per cent of their net worth as on March 31 of the previous year.

August

- Banks permitted to issue prepaid payment instruments to corporates for onward issuance to their employees, subject to certain conditions.
- Operational Guidelines issued on 'Implementation of Electronic Benefit Transfer (EBT) and its Convergence with Financial Inclusion Plan'.
- The Reserve Bank reiterated to all participating banks to provide the customer the option to choose between RTGS/NEFT at the time of initiating funds transfer either at the branch or through internet or any other means.
- The Reserve Bank reiterated to banks to mention the 'Date of Return' in the Cheque Return Memo, in the event of dishonour/return of cheques. In light of the criticality of the document in case of recourse to legal action, instruments returned unpaid should also have a signed/initialled objection slip on which a definite and valid reason for refusing payment must be stated.
- The Reserve Bank reiterated its stance to banks that all demand drafts, mail transfers, telegraphic transfers and travellers cheques for ₹50,000 and above should be issued by banks only by debit to the purchaser's account or against cheques or other instruments tendered by the purchaser and not against cash payment. These instructions are also applicable to retail sale of gold/silver/platinum.

September

- Repo rate under the LAF increased by 25 basis points from 8.00 per cent to 8.25 per cent from September 16, 2011.
- Reverse repo rate under the LAF automatically adjusted to 7.25 per cent from 7.00 per cent and MSF rate to 9.25 per cent from 9.00 per cent from September 16, 2011.

- As a customer service initiative, banks allowed to replenish cash at their ATMs by withdrawing cash from the Reserve Bank in the event of strike in the entire banking sector excepting the Reserve Bank or in the event of any natural calamity in the region/country.
- Individual residents in India permitted to include non-resident close relative(s) as joint holder(s) in their resident bank accounts, as also, in exporter earners' foreign currency (EEFC) and residents' foreign currency (RFC) accounts on 'former or survivor' basis. Non-resident Indian close relative(s), however, would not be eligible to operate the account during the life time of the resident account holder.
- NRIs permitted to open non-resident (external) rupee account scheme/ foreign currency (non-resident) account (banks) scheme {FCNR(B)} accounts with their resident close relative(s) on 'former or survivor' basis. The resident close relative would be eligible to operate the account as power of attorney holder during the life time of the NRI/PIO account holder.
- A person resident in India permitted to give to a person resident outside India, by way of gift, any security/shares/debentures of up to USD 50,000 in value per financial year without the Reserve Bank's approval.
- Sale proceeds of FDI permitted to be credited to non-resident (external) rupee (NRE) account/FCNR (B) accounts. The NRIs/PIOs should, however, have purchased the consideration out of inward remittance or funds held in their NRE/FCNR (B) accounts.
- Resident individuals permitted to make a rupee gift to a NRI/PIO who is a close relative by way of crossed cheque/electronic transfer to the non-resident (ordinary) rupee account (NRO) of the NRI/PIO. The gift amount should be within the overall limit of USD 200,000 per financial year as permitted under the liberalised remittance scheme (LRS) for a resident individual.
- Resident individuals granted general permission to repay loans availed of from banks in Rupees in India by their NRI close relatives. The loans should be repaid by resident close relative of the NRI by crediting the borrower's loan account through the bank account of such relative.
- Residents allowed to bear the medical expenses of visiting NRI/PIO close relatives.
- Pursuant to the Government of India extending interest subvention of 2 per cent on rupee export credit from April 1, 2011 to March 31, 2012 to the following sectors (i) handicrafts; (ii) handlooms; (iii) carpets; and (iv) small and medium enterprises (SMEs), banks advised to reduce the interest rate chargeable to the exporters as per Base Rate system in these sectors, by the amount of subvention available, subject to a floor rate of 7 per cent.
- Corporates in specified service sectors, viz., hotel, hospital and software, permitted to avail of ECB up to USD 200 million or equivalent during a financial year as against the earlier limit of USD 100 million or equivalent per financial year provided the proceeds of the ECBs are not used for acquisition of land.
- Indian companies in the infrastructure sector, where "infrastructure" is as defined under the extant guidelines on ECB, permitted 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 conditions.
- Scheduled UCBs having a minimum networth of ₹100 crore, capital to risk-weighted assets ratio (CRAR) of at least 10 per cent, net NPA of less than 5 per cent and having earned net

profit continuously in the last three financial years permitted to offer internet banking facility to their customers.

- Indian companies in the infrastructure sector, permitted to avail of ECBs in Renminbi, under the approval route, subject to an annual cap of USD one billion pending further review.

October

- Authorised dealer (AD) banks in India permitted to accept FCNR (B) deposits in any permitted currency.
- Savings bank deposit interest rate for resident Indians deregulated from October 25, 2011. Banks given the freedom to determine their savings bank deposit interest rate, subject to the conditions that - (i) each bank should offer a uniform interest rate on savings bank deposits up to Rs.1 lakh, irrespective of the amount in the account within this limit; (ii) for savings bank deposits over Rs.1 lakh, a bank may provide differential rates of interest, if it so chooses, subject to the condition that the bank should not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.
- Repo rate increased by 25 basis points from 8.25 per cent to 8.50 per cent from October 25, 2011.
- Reverse repo rate adjusted to 7.50 per cent from October 25, 2011.
- MSF recalibrated at 9.50 per cent from October 25, 2011.
- Tier-I UCBs permitted to extend individual housing loans up to a maximum of Rs. 30 lakh per beneficiary of a dwelling unit and Tier II UCBs permitted to extend individual housing loans up to a maximum of Rs.70 lakh per beneficiary of a dwelling unit subject to extant prudential exposure limits.
- The maximum repayment period of housing loans granted by UCBs (including the period of moratorium or repayment holiday) enhanced from the earlier period of 15 years to 20 years.

November

- The proceeds of the ECB raised abroad meant for Rupee expenditure in India, such as, local sourcing of capital goods, on-lending to SHGs or for micro credit, payment for spectrum allocation, etc., should be brought immediately for credit to the Rupee accounts with AD Category I banks in India.
- From the close of business in India as on November 23, 2011, interest rates on fresh non-resident (external) rupee (NRE) term deposits for one to three years maturity should not exceed the LIBOR/SWAP rates plus 275 basis points, as on the last working day of the previous month, for US dollar of corresponding maturities. Interest rates would also be applicable to deposits with maturity period exceeding three years and to deposits renewed after their present maturity period.
- Interest rates on FCNR(B) deposits of all maturities contracted from the close of business in India as on November 23, 2011, would be within the ceiling rate of LIBOR/SWAP rates plus 125 basis points for the respective

currency/corresponding maturities. Interest rate on floating rate deposits would be within the ceiling of SWAP rates for the respective currency/maturity plus 125 basis points and the interest reset period would be six months.

- Ceiling rate on export credit in foreign currency by banks, increased to LIBOR plus 350 basis points from the earlier ceiling rate of LIBOR plus 200 basis points from November 15, 2011 till March 31, 2012, subject to the condition that banks should not levy any other charges, viz., service charge, management charge, etc., except for recovery towards out of pocket expenses incurred. Similar changes to be effected in interest rates in cases where EURO LIBOR/EURIBOR has been used as the benchmark. The revision in the rates of interest is applicable only to fresh advances and the rates are subject to review after March 31, 2012.
- Ceiling interest rate on the lines of credit with overseas banks increased from six months LIBOR/EURO LIBOR/EURIBOR plus 100 basis points to six months LIBOR/EURO LIBOR/EURIBOR plus 250 basis points, from November 15, 2011 till March 31, 2012.
- The Reserve Bank has, in public interest and in the interest of banking policy, reduced the period within which cheques/drafts/pay orders/banker's cheques are presented for payment, from six months to three months from the date of such instrument.

December

- Forward contracts booked by residents irrespective of the type and tenor of the underlying exposure, once cancelled, cannot be rebooked.
- All cash/tom/spot transactions by ADs on behalf of clients would be undertaken for actual remittance/delivery only and cannot be cancelled/cash settled.

• Interest rates on NRE deposits and NRO accounts deregulated. Banks given the freedom to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under NRE deposit accounts and savings deposits under NRO accounts from December 16, 2011. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

• Prudential guidelines laid down for banks' investments in subsidiaries, other than subsidiaries and non financial services companies.

- A separate category of NBFCs, viz; Non Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) created.
- Micro finance institutions (MFIs) permitted to raise ECB up to USD 10 million or equivalent during a financial year for permitted end-uses, under the automatic route.
- Banks permitted to avail themselves of funds from the Reserve Bank on overnight basis under Marginal Standing Facility (MSF), against their excess SLR holdings.

