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MONETARY AND CREDIT INFORMATION REVIEW

Important Banking and Financial Developments in 2013

January

- The Reserve Bank of India announced the Third Quarter Review of Monetary Policy for the year 2012-13 on January 29, 2013.
- Repo rate under the liquidity adjustment facility (LAF) reduced from 8.0 per cent to 7.75 per cent from January 29, 2013.
- Reverse repo rate under LAF, determined with a spread of 100 basis points below the repo rate, adjusted to 6.75 per cent from January 29, 2013.
- Marginal standing facility (MSF) rate determined with a spread of 100 basis points above the repo rate, adjusted to 8.75 per cent from January 29, 2013.
- Cash reserve ratio (CRR) of scheduled banks reduced by 25 basis points from 4.25 per cent to 4.00 per cent of their NDTL from the fortnight beginning February 9, 2013.
- Local area banks advised to maintain CRR at 3.00 per cent of their NDTL up to February 8, 2013 and 4.00 per cent of their NDTL from the fortnight beginning February 9, 2013.
- Bank rate adjusted to 8.75 per cent from January 29, 2013.
- A US Dollar-Rupee swap facility introduced from January 21, 2013 to support incremental pre-shipment export credit in foreign currency (PCFC). The swap facility to be made available to scheduled banks (excluding RRBs) from January 21, 2013 till June 28, 2013 for fixed tenor of 3/6 months.
- Revised guidelines on credit default swaps (CDS) issued.
- Revised guidelines on Repo in Corporate Debt Securities issued to permit repo in corporate debt on commercial papers, certificates of deposit and non-convertible debentures of less than one year of original maturity.
- With a view to deepening the corporate bond market in India through enhanced retail participation, banks, while issuing subordinated debt for raising Tier II capital, encouraged to consider the option of raising such funds through public issue to retail investors.
- Revised instructions issued to banks on interest rates on/premature withdrawal of rupee term deposits.
- Funds transfer through centralised funds management system (CFMS) discontinued from January 1, 2013.
- Banks advised that the facility to exchange cut/mutilated bank notes, in addition to soiled notes and issue of good quality clean banknotes/coins, should be made available at all their bank branches (including those of co-operative banks and RRBs).

February

- Guidelines for licensing of new banks in the private sector released on February 22, 2013.
- Guidelines for gold deposit scheme formulated to enable banks authorised to deal in gold to prepare their own deposit schemes.
- Revised guidelines on Fair Practice Code to be adopted by all non-banking financial companies (NBFCs) while doing lending business, issued.
- NBFCs advised to display prominently, for the benefit of their customers, at their branches/places where business is transacted, the details of the grievance redressal officer belonging to their company as also that of the local office of the Reserve Bank.

March

- Repo rate under the LAF reduced by 25 basis points from 7.75 per cent to 7.50 per cent from March 19, 2013.
- Consequent to the change in repo rate, the reverse repo rate under the LAF automatically adjusted to 6.50 per cent from March 19, 2013.
- MSF rate automatically adjusted to 8.50 per cent from March 19, 2013.
- Bank rate adjusted by 25 basis points from 8.75 per cent to 8.50 per cent from March 19, 2013.
- All penal interest rates on shortfall in reserve requirements, which are specifically linked to the bank rate, also revised to bank rate plus 3.0 percentage points (11.50 per cent) or bank rate plus 5.0 percentage points (13.50 per cent).
- Interest rate charged on the standing liquidity facilities provided to banks under export credit refinance (ECR) and special export credit refinance and to primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank to be at the revised repo rate, i.e., at 7.50 per cent from March 19, 2013.
- With a view to further simplifying and liberalising the procedure and for providing greater flexibility to all exporters as well as authorised dealer (AD) banks, the limits of “write-offs” of unrealised export bills liberalised.
- Authorised money changers permitted to sell Indian rupees to foreign tourists/visitors against international credit cards/international debit cards.

April

- Primary (urban) co-operative banks (UCBs) fulfilling certain conditions allowed to grant unsecured loans (with or without surety) up to 25 per cent of their total assets with the Reserve Bank's prior approval.
- A separate set of guidelines for the entry of core investment companies (CICs) into insurance business, issued.
- The limit of loans to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months increased from ₹25 lakh to ₹50 lakh both under direct and indirect agriculture. The limit of loans to dealers/sellers of fertilisers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs raised to ₹5 crore per borrower from ₹1 crore.
- The limit of bank loans to micro and small service enterprises (MSEs) engaged in providing or rendering of services increased from ₹2 crore to ₹5 crore per borrower/unit, provided they satisfy the investment criteria for equipment as defined under the MSMED Act, 2006.

May

- The Reserve Bank announced the Monetary Policy Statement for 2013-14 on May 3, 2013.
- Repo rate under LAF reduced by 25 basis points from 7.50 per cent to 7.25 per cent from May 3, 2013.
- Reverse repo rate automatically adjusted to 6.25 per cent from May 3, 2013.
- MSF rate automatically adjusted to 8.25 per cent from May 3, 2013.
- Standing liquidity facilities provided to banks under export credit refinance and special export credit refinance and to primary dealers (collateralised liquidity support) from the Reserve Bank made available at the revised repo rate, i.e., at 7.25 per cent from May 3, 2013.
- Bank rate adjusted by 25 basis points from 8.50 per cent to 8.25 per cent from May 3, 2013.
- Pursuant to the recommendations of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets, banks permitted to exceed the limit of 25 per cent of total investments under 'held to maturity' (HTM) category provided, the excess comprises only of statutory liquidity ratio (SLR) securities; and the total SLR securities held in the HTM category are not more than 24.50 per cent by end-June 2013, 24.00 per cent by end-September 2013, 23.50 per cent by end-December 2013, and 23.00 per cent by end-March 2014 of their demand and time liabilities (DTL) as on the last Friday of the second preceding fortnight.
- Reiterating its earlier instructions on "Clean Note Policy" the Reserve Bank advised banks to do away with stapling of note packets and instead secure note packets with paper bands; sort notes into re-issuables and non-issuables; issue only clean notes to the public; and forthwith stop writing of any kind on the watermark window of bank notes.
- With a view to facilitating direct benefit transfer (DBT) for the delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, banks advised to open accounts for all eligible individuals in camp mode with the support of local government authorities, seed the existing accounts or new accounts opened with Aadhaar numbers and put in place an effective mechanism to monitor and review the progress in the implementation of DBT.
- The Reserve Bank restricted the import of gold on consignment basis by banks, only to meet the genuine needs of exporters of gold jewellery.
- The period for realisation and repatriation to India, of the amount representing the full value of goods or software exported, brought down from twelve months to nine months from the date of export.

June

- Banks advised that while granting advance against the security of specially minted gold coins sold by them, they should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) should be within their Board approved limit.
- A separate sub-sector called 'commercial real estate - residential housing' (CRE-RH) carved out from the commercial real estate (CRE) sector. CRE-RH to consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. The CRE-RH segment to attract a lower risk weight of 75 per cent and lower standard asset provisioning of 0.75 per cent as against 100 per cent and 1.00 per cent, respectively for the CRE segment.
- The per transaction limit for export related remittances received through online payment gateway service providers increased from USD 3,000 to USD 10,000.
- The Reserve Bank advised that, any import of gold on consignment basis by nominated banks/agencies/premier/star trading houses, permitted by the Government of India to import gold, would now be permissible only to meet the needs of exporters of gold jewellery.
- The import of gold in any form/purity including, import of gold coins/dore into the country, rationalised. All nominated banks/nominated agencies advised to strictly adhere to the instructions issued by the Reserve Bank.
- Units located in special economic zones (SEZs) advised to realise and repatriate full value of goods/software/services to India within a period of twelve months from the date of export.
- The benefit of USD 10 billion scheme extended to Indian companies in the manufacturing, infrastructure and hotel sectors which have established joint venture/wholly owned subsidiary/have acquired assets overseas in compliance with extant regulations under FEMA, 1999.
- Instructions issued to banks regarding operation of bank accounts by old and incapacitated persons.
- With a view to taking financial inclusion to the next stage of providing universal coverage and facilitating electronic benefit transfer (EBT), domestic scheduled commercial banks (SCBs) advised to draw up the next financial inclusion plan (FIP) for the period 2013-16. To facilitate speedier branch expansion in unbanked rural centres for ensuring seamless roll out of the DBT/EBT scheme of the Government of India, banks advised

to consider front-loading (prioritising) opening of branches in unbanked rural centres over a 3 year cycle co-terminus with their FIP (2013-16).

- The Reserve Bank clarified that NBFCs should not grant advances for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold exchange traded funds (ETF) and units of gold mutual funds.

July

- The minimum daily CRR balance required to be maintained by banks, increased from 70 per cent to 99 per cent of their NDTL effective from the first day of the fortnight beginning July 27, 2013.
- The total quantum of funds available to a bank under the LAF capped at 0.50 per cent of the individual bank's net NDTL from July 24, 2013.
- Bank credit to micro finance institutions (MFIs) for onlending, now eligible for categorisation as priority sector advance if, the aggregate amount of loan, extended for income generating activity is not less than 70 per cent of the total loans given by MFIs.
- MSF rate recalibrated at 300 basis points above the policy repo rate under the LAF. Consequently, the MSF rate set at 10.25 per cent from July 16, 2013.
- Bank rate adjusted by 200 basis points from 8.25 per cent to 10.25 per cent from July 15, 2013.

August

- The limit under the liberalised remittance scheme (LRS) for resident individuals reduced from USD 200,000 per financial year to USD 75,000 per financial year (April - March) from August 14, 2013. AD category-I banks permitted to allow remittance up to USD 75,000 per financial year under the scheme, for any permitted current or capital account transaction or a combination of both.
- Regulations governing overseas direct investments (ODIs) rationalised.
- The total ODI limit of an Indian party in all its JVs and/or WOSs abroad, engaged in any bonafide business activity, reduced from 400 per cent of its net worth as on the date of the last audited balance sheet to 100 per cent of its net worth under the automatic route.
- The limit of an Indian company investing in overseas unincorporated entities in the energy and natural resources sectors, under the automatic route, reduced from 400 per cent to 100 per cent of its net worth as on the date of the last audited balance sheet. Any ODI in excess of 100 per cent of the net worth to be considered by the Reserve Bank under the approval route.
- The ceiling for foreign direct investment (FDI) in asset reconstruction companies (ARCs) increased from 49 per cent to 74 per cent subject to the condition that, no sponsor should hold more than 50 per cent of the shareholding in an ARC either by way of FDI or by routing through a foreign institutional investor (FII).
- Banks permitted to offer interest rates without any ceiling on non-resident (external) rupee (NRE) deposits with maturity of 3 years and above.
- From the fortnight beginning August 24, 2013, incremental foreign currency non-resident (banks) {FCNR (B)} and NRE deposits with reference base date of July 26, 2013, and having maturity of three years and above, mobilised by banks, to be exempt from maintenance of CRR and SLR.
- The Reserve Bank introduced a US Dollar-Rupee swap window for fresh FCNR (B) dollar funds, mobilised for a minimum tenor of three years and above.

September

- Repo rate under LAF increased by 25 basis points from 7.25 per cent to 7.50 per cent from September 20, 2013.
- Reverse repo rate under the LAF automatically adjusted to 6.50 per cent from September 20, 2013.
- MSF rate reduced by 75 basis points from 10.25 per cent to 9.50 per cent from September 20, 2013.
- Standing liquidity facilities provided to banks under export credit refinance and to PDs (collateralised liquidity support) from the Reserve Bank to be available at the revised repo rate, i.e., at 7.50 per cent.
- Bank rate adjusted by 75 basis points from 10.25 per cent to 9.50 per cent from September 20, 2013.
- The minimum daily maintenance of CRR reduced from 99 per cent of the requirement to 95 per cent effective from the fortnight beginning September 21, 2013.
- General permission given to domestic scheduled commercial banks (other than RRBs) to open branches in Tier 2 to Tier 6 centres and in the rural, semi-urban and urban centres in North-Eastern States and Sikkim without taking the Reserve Bank's permission in each case, now extended to branches in Tier 1 centres also, subject to conditions.
- Base Rate guidelines revised. Banks allowed flexibility in computation/revision of Base Rate methodology to enable them to overcome the difficulties faced in this regard.
- Banks advised that disbursal of housing loans sanctioned to individuals, should be closely linked to the stages of construction of the housing project/houses and upfront disbursal should not be made in cases of incomplete/under-construction/green field housing projects.
- AD category - I banks seeking access to overseas funds, henceforth, allowed to borrow funds from their head office, overseas branches and correspondents and overdrafts in nostro accounts up to a limit of 100 per cent of their unimpaired Tier I capital as at the close of the previous quarter or USD 10 million (or its equivalent), whichever is higher, as against the earlier limit of 50 per cent (excluding borrowings for financing of export credit in foreign currency and capital instruments).
- The timeframe for implementation of core banking solution by UCBs revised from December 31, 2013 to June 30, 2014 and to December 31, 2014 for Tier I UCBs and unit banks.
- The ceiling on loans to individuals for carrying out repairs/additions/alterations to their dwelling units enhanced to ₹2 lakh in rural and semi-urban areas and ₹5 lakh in urban areas. Such loans would also be eligible for classification under priority sector.

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October

- Branch Authorisation Policy relaxed. Detailed guidelines issued.
- Criteria for financially sound and well managed UCBs revised.
- Reserve Bank to consider applications from UCBs for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934. As notified by the Government of India, from April 1, 2013, only licensed UCBs whose DTL is not less than ₹ 750 crore would be treated as a 'financial institution' for the purpose of inclusion in the Second Schedule to the Reserve Bank of India Act, 1934.
- Unsecured loans up to ₹10,000 sanctioned by UCBs exempted from the aggregate ceiling on unsecured exposure of 10 per cent of total assets as per audited balance sheet as on March 31 of the previous financial year, subject to conditions.
- UCBs advised to utilise the 'at par' cheque facility extended by scheduled commercial banks only for their own use; their account holders who are KYC compliant provided, all transactions of ₹50,000 or more are strictly by debit to the customer's account; and walk-in customers against cash of less than ₹50,000 per individual.
- UCBs advised to make use of more efficient means of remittances for their customers like NEFT or RTGS by providing such services directly or by becoming sub-members of banks providing such services.
- The new Real Time Gross Settlement (RTGS) system launched by Dr. Raghuram Rajan, Governor, Reserve Bank of India on October 19, 2013.
- Repo rate under LAF increased by 25 basis points from 7.50 per cent to 7.75 per cent from October 29, 2013.
- Consequent to the change in the repo rate, the reverse repo rate under the LAF automatically adjusted to 6.75 per cent from October 29, 2013.
- MSF rate reduced by 25 basis points from 9.00 per cent to 8.75 per cent from October 29, 2013.
- The quantum of liquidity to be provided through term repos of 7 day and 14 day tenor increased from 0.25 per cent to 0.50 per cent of NDTL of the banking system from October 29, 2013.
- Bank rate adjusted by 25 basis points from 9.0 per cent to 8.75 per cent from October 29, 2013.
- The standing liquidity facilities provided to banks under export credit refinance and to primary dealers (collateralised liquidity support) by the Reserve Bank to be made available at the revised repo rate, i.e., at 7.75 per cent from October 29, 2013.

MONETARY AND CREDIT INFORMATION REVIEW

Wishes its Readers

A Happy and

Prosperous New Year

November

- Framework for setting up of WOSs by foreign banks in India released.
- AD banks allowed to receive payments for export of goods/software to be received from a third party (a party other than the buyer) subject to conditions.
- Financially sound and well managed UCBs permitted to act as PAN service agent by entering into a tie-up with UTI Infrastructure and Technology Services Ltd., (UTIITSL) with the Reserve Bank's prior approval.
- With a view to ensuring reasonableness and equity in the charges levied by banks for sending SMS alerts to customers, banks advised to leverage the technology available with them and the telecom service providers to ensure that such charges are levied on all customers on actual usage basis.
- All regional rural banks (RRBs) advised to achieve and maintain a minimum capital to risk weighted assets ratio (CRAR) of 9 per cent on an ongoing basis with effect from March 31, 2014.
- Entities/units in SEZ and export oriented units (EoUs), premier and star trading houses (irrespective of whether they are nominated agencies or not) permitted to import gold exclusively for the purpose of exports only.

December

- General credit card (GCC) guidelines revised in order to enhance the coverage of GCC scheme to ensure greater credit linkage for all productive activities within the overall priority sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activity.
- Guidelines on stress testing updated. All banks required to carry out stress tests. The degree of sophistication adopted by banks in their stress testing programmes expected to be commensurate with the nature, scope, scale and the degree of complexity in their business operations and the risks associated with those operations.
- Mid-Quarter Review of Monetary Policy Statement 2013-14 announced on December 18, 2013.
- Holding companies/core investment companies (CICs) coming under the regulatory framework of the Reserve Bank permitted to raise ECB under the automatic route/approval route for project use in special purpose vehicles (SPVs).
- RRBs given the option to pay interest on rupee savings deposits and term deposits at intervals shorter than quarterly intervals.

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