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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Savings Bank Deposit Interest Rate Deregulated

The Reserve Bank has deregulated the savings bank deposit interest rate from October 25, 2011. Banks are free to determine their savings bank deposit interest rate, subject to the conditions indicated below:

- Each bank will have to offer a uniform interest rate on savings bank deposits up to Rs.1 lakh, irrespective of the amount in the account within this limit.
- 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 will 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.

These revised Guidelines are applicable to savings bank deposits of resident Indians only.

Interest Rates on NRE and FCNR(B) Deposits hiked

NRE Deposits

In view of the prevailing market conditions, it has been decided that until further notice and with effect from the close of business in India as on November 23, 2011, the interest rates on non-resident (external) rupee (NRE) term deposits will be as under:

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. The interest rates will also be applicable to deposits with maturity period exceeding three years and to deposits renewed after their present maturity period.

Earlier, since November 15, 2008, the interest rate on NRE deposits was LIBOR/SWAP rates plus 175 basis points.

FCNR(B) Deposits

It has also been decided that until further notice and with effect from the close of business in India as on November 23, 2011, the interest rates on foreign currency non-resident (banks) (FCNR(B)) deposits will be as under:

Interest rate on FCNR(B) deposits of all maturities contracted effective from the close of business in India as on November 23, 2011, will 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 will be within the ceiling of SWAP rates for the respective currency/maturity plus 125 basis points and the interest reset period will be six months.

Earlier, since November 15, 2008, the interest rate on these deposits was LIBOR/SWAP rates plus 100 basis points.

All other instructions in this regard, as amended from time to time, will remain unchanged.

Ceiling Interest Rate on Export Credit in Foreign Currency

Keeping in view the tight liquidity conditions and widening of credit spreads due to recent developments in international financial markets, the Reserve Bank has increased the ceiling rate on export credit in foreign currency by banks, 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 will not levy any other charges viz., service charge, management charge etc., except for recovery

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towards out of pocket expenses incurred. Similar changes may be effected in interest rates in cases where EURO LIBOR/ EURIBOR has been used as the benchmark. The rates of interest applicable have been indicated in the box on this page.

The revision in the rates of interest is applicable only to fresh advances and the rates are subject to review after March 31, 2012

Further, the ceiling interest rate on the lines of credit with overseas banks has also been 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 and is subject to review thereafter.

Repo/Reverse Repo/Marginal Standing Facility Rates

The repo/reverse repo/marginal standing facility rates under the liquidity adjustment facility (LAF) have been revised from October 25, 2011 as under:

Repo Rate: increased by 25 basis points from 8.25 per cent to 8.50 per cent

Reverse Repo Rate: adjusted to 7.50 per cent

Marginal Standing Facility: recalibrated at 9.50 per cent.

Standing Liquidity Facilities for Banks/PDs

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 8.50 per cent from October 25, 2011.

Scheme of 1% Interest Subvention on Housing Loans

On April 21, 2011, the Reserve Bank had advised that the scheme of interest subvention of 1 per cent on housing loans had been liberalised by extending it to housing loans up to Rs.15 lakh where the cost of the house does not exceed Rs.25 lakh as against the earlier limit of Rs.10 lakh and Rs.20 lakh respectively.

The Reserve Bank has now clarified that -

a) The Scheme has been extended up to March 31, 2012.

b) Loans sanctioned and disbursed between October 1, 2009 and March 31, 2011 are outside the ambit of the new liberalised Scheme and they would be treated as per old instructions (ie., loans up to Rs.10.00 lakh with project cost up to Rs.20.00 lakh).

Banks may continue to claim reimbursement, at present, as per the original Scheme. For claims in respect of the new Scheme, revised instructions would follow.

All other terms and conditions of the interest subvention Scheme remain the same.

BRANCH BANKING

Repayment of Term/Fixed Deposits by Banks

The Reserve Bank has clarified that if fixed/term deposit accounts are opened with operating instructions ‘Either or Survivor’, banks need not obtain the signatures of both the depositors for payment of the amount of the deposits on maturity. The signatures of both the depositors would, however, have to be obtained, in case the deposit is to be paid before maturity. If the operating instruction is ‘Either or Survivor’ and one of the depositors expires before maturity of the deposit, pre-payment of the fixed/term deposit may not be allowed without the concurrence of the legal heirs of the deceased joint holder. This, however, would not stand in the way of making payment to the survivor on maturity.

In case the mandate is ‘Former or Survivor’, the ‘Former’ alone can operate/withdraw the matured amount of the fixed/ term deposit, when both the depositors are alive. In case the deposit is to be paid before maturity, the signature of both the

Interest Rates on Export Credit in Foreign Currency

Type of Credit	Interest Rate (per cent per annum)
(i) Pre-shipment Credit	
(a) Up to 180 days	Not exceeding 350 basis points over LIBOR/EURO LIBOR EURIBOR
(b) Beyond 180 days and up to 360 days	Rate for initial period of 180 days prevailing at the time of extension plus 200 basis points i.e. (i) (a) above plus 200 basis points
(ii) **Post-shipment Credit**	
(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding 350 basis points over LIBOR/EURO LIBOR/ EURIBOR
(b) Against usance bills (credit for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable) Up to 6 months from the date of shipment	Not exceeding 350 basis points over LIBOR/EURO LIBOR/ EURIBOR
(c) Export Bills (Demand or Usance) realised after due date but up to date of crystallisation	Rate for (ii) (b) above plus 200 basis points

Note: (i) Bank should not levy any other charges over and above the interest rate under any name viz., service charge, management charge etc., except recovery towards out of pocket expenses incurred by banks as per IBA guidelines.

(ii) Banks are free to decide the rate of interest, being the rupee credit rate, for pre-shipment and post-shipment credit beyond the tenors prescribed above, keeping in view the guidelines on Base Rate.

depositors would have to be obtained. If the former expires before the maturity of the fixed/term deposit, the 'Survivor' can withdraw the deposit on maturity. Premature withdrawal would, however, require the consent of both the parties, when both of them are alive, and that of the surviving depositor and the legal heirs of the deceased in case of death of one of the depositors.

If the joint depositors prefer to allow premature withdrawals of fixed/term deposits also in accordance with the mandate of 'Either or Survivor' or 'Former or Survivor', as the case may be, it would be open to banks to do so, provided they have taken a specific joint mandate from the depositors for the purpose.

It has come to the notice of the Reserve Bank that some banks insist on the signatures of both the depositors to allow repayment of money in fixed/term deposits, though the deposit account is opened with operating instructions (sometimes called 'repayment instructions'), 'Either or Survivor' or 'Former or Survivor'.

Payment of Cheques/Drafts/Pay Orders/Banker's Cheques

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. Accordingly, the Reserve Bank has, in exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, directed banks that from April 1, 2012, they should not make payment of cheques/drafts/pay orders/banker's cheques bearing that date or any subsequent date, if they are presented beyond a period of three months from the date of such instrument.

Banks have been further advised to ensure strict compliance of these directions and notify the holders of such instruments of the change in practice by printing or stamping on the cheque leaves, drafts, pay orders and banker's cheques issued on or after April 1, 2012, suitable instruction for presentment within a period of three months from the date of the instrument.

It had been brought to the notice of the Reserve Bank by the Government of India that some persons are taking undue advantage of the practice of banks of making payment of cheques/ drafts/pay orders/banker's cheques presented within a period of six months from the date of the instrument, by circulating these instruments in the market like cash for six months.

FEMA

ECB Policy modified

On a review of the developments in the global financial markets and current macro-economic conditions, certain aspects of the external commercial borrowings (ECB) policy have been modified, in consultation with the Government of India, as under:

(i) Enhancement in All-in-Cost Ceiling

The all-in-cost for ECBs has been revised as under:

Average Maturity Period	All-in-cost over 6 month LIBOR* Existing	All-in-cost over 6 month LIBOR* Revised
Three and up to five years	300 bps	350 bps
More than five years	500 bps	500 bps

* for the respective currency of credit or applicable benchmark

(ii) Parking of ECB Proceeds

The proceeds of the ECB raised abroad for Rupee expenditure in India, such as, local sourcing of capital goods, on-lending to self-help groups or for micro credit, payment for spectrum allocation, etc., should be brought immediately for credit to Rupee accounts with AD Category I banks in India. In other words, ECB proceeds meant only for foreign currency expenditure can be retained abroad pending utilisation. As hitherto, however, the Rupee funds will not be permitted to be used for investment in capital markets, real estate or for inter-corporate lending.

These amendments in the ECB policy have come into force from November 23, 2011 and the enhancement in all-in-cost ceiling is applicable up to March 31, 2012 subject to review thereafter.

Trade Credits for Imports into India

On a review of the developments in the global financial markets and the fact that domestic importers are experiencing difficulties in raising trade credit within the existing all-in-cost ceiling, the all-in-cost ceiling for trade credits has been revised as under:

Maturity Period	All-in-cost over 6 month LIBOR* Existing	All-in-cost over 6 month LIBOR* Revised
Up to one year More than one year and up to three years	200 bps	350 bps

* 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.

The enhancement in the all-in-cost ceiling has come into force from November 15, 2011 and is applicable up to March 31, 2012. The all-in-cost ceiling would be subject to review thereafter. All other aspects of the trade credit policy remain unchanged.

Set-off of Export Receivables against Import Payables

As a measure of further liberalisation, the Reserve Bank has delegated powers to AD Category – I banks to deal with the cases of "set-off" of export receivables against import payables, subject to the conditions that:

- The import is as per the Foreign Trade Policy in force.
- Invoices/bills of lading/airway bills and exchange control copies of bills of entry for home consumption have been submitted by the importer to the authorised dealer bank.
- Payment for the import is still outstanding in the books of the importer.
- Both the transactions of sale and purchase should be reported separately in 'R' Returns.
- The relative GR forms should be released by the AD bank only after the entire export proceeds are adjusted/received.
- The " set-off" of export receivables against import payments should be in respect of the same overseas buyer and supplier and that consent for "set-off" has been obtained from him.
- The export/import transactions with Asian Clearing Union (ACU) countries should be kept outside the arrangement.
- All the relevant documents are submitted to the concerned AD bank which should comply with all the regulatory requirements relating to the transactions.

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UCBs

Limit/Repayment Period of Housing Loans Enhanced

Based on the representations received from urban co-operative banks (UCBs) and their associations, it has been decided to permit Tier-I UCBs to extend individual housing loans up to a maximum of Rs. 30 lakh per beneficiary of a dwelling unit and Tier II UCBs 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) has also been enhanced from the earlier period of 15 years to 20 years.

All other instructions regarding grant of housing loans by UCBs remain unchanged.

Direct Access to NDS-OM

With a view to widening the secondary market in government securities to more number of participants, it has been decided to extend direct access to Negotiated Dealing System-Order Matching (NDS-OM) to licensed UCBs and systemically important non-deposit taking non-banking financial companies (NBFC-ND-SIs) falling under the purview of Section 45-I (c) (ii) of the Reserve Bank of India (RBI) Act, 1934 (i.e. NBFC-ND-SIs which carry on as their business or part of their business the activity of acquisition of shares, stock, bonds, debentures or securities issued by a government or local authority or other marketable securities of like nature).

The extension of direct membership of NDS-OM to licensed UCBs and NBFC-ND-SIs [under Section 45-I (c) (ii) of the RBI Act, 1934] is, however, subject to the comfort of the respective regulatory department of the Reserve Bank. Hence, all licensed UCBs and NBFC-ND-SIs which are eligible to obtain direct access to NDS-OM as per the below criteria should furnish a no-objection certificate from their respective regulatory departments while applying for NDS-OM membership.

Criteria

Licensed UCBs

- Current account with RBI or a funds account with one of the designated settlement banks (DSBs) chosen by Clearing Corporation of India Limited (CCIL) for funds settlement.
- Subsidiary general ledger (SGL) account with RBI.
- Membership of negotiated dealing system (NDS).
- Indian Financial Network (INFINET) connectivity.
- Membership of CCIL.
- Minimum capital to risk weighted assets ratio (CRAR) of 9 per cent.
- Net non-performing assets (NPA) of less than 5 per cent.
- Minimum net worth of Rs. 25 crore.

NBFC-ND-SIs

- Current account with RBI or a funds account with one of the designated settlement banks (DSBs) chosen by Clearing Corporation of India Limited (CCIL) for funds settlement.
- Subsidiary general ledger (SGL) account with RBI.
- Membership of negotiated dealing system (NDS).
- Indian Financial Network (INFINET) connectivity.
- Membership of CCIL.
- Minimum net owned funds of Rs. 100 crore.
- Net NPAs of less than 3 per cent for past 3 years.
- Net profit for past 3 years.

Second Quarter Review of Monetary Policy 2011-12

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Second Quarter Review of the Monetary Policy for the Year 2011-12 on October 25, 2011. Highlights:

Projections

- Baseline projection of GDP growth for 2011-12 revised downwards to 7.6 per cent.
- Baseline projection for wholesale price index (WPI) inflation for March 2012 kept unchanged at 7.0 per cent.
- M_3 growth projection for 2011-12 retained at 15.5 per cent.
- Non-food credit retained at 18 per cent.

Stance

- Maintain an interest rate environment to contain inflation and anchor inflation expectations.
- Stimulate investment activity to support raising the trend growth.
- Manage liquidity to ensure that it remains in moderate deficit, consistent with effective monetary transmission.

Monetary Measures

- Bank Rate retained at 6.0 per cent.
- Repo rate under the LAF increased by 25 basis points from 8.25 per cent to 8.50 per cent.
- Reverse repo rate under the LAF, automatically adjusted to 7.50 per cent.
- Marginal Standing Facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, recalibrated at 9.5 per cent.
- Cash reserve ratio (CRR) of scheduled banks retained at 6.0 per cent of their net demand and time liabilities (NDTL).

Expected Outcomes

The monetary policy actions and the guidance are expected to:

- Continue to anchor medium-term inflation expectations on the basis of a credible commitment to low and stable inflation.
- Reinforce the emerging trajectory of inflation, which is expected to begin to decline in December 2011.
- Contribute to stimulating investment activity.

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