*Press Releases**

October 2011

RBI Board Meets at Jaipur

October 13, 2011

The Central Board of the Reserve Bank of India met in Jaipur. The Central Board of Directors of the Reserve Bank meets at least once every quarter. The Board has scheduled meetings in Mumbai, Chennai and Kolkata each year. The post-budget meeting of the Board, traditionally held in New Delhi, is addressed by the Union Finance Minister. The other meetings of the Board are held in the remaining state capitals by rotation. The Central Board provides overall direction to its affairs of the Reserve Bank.

Dr D. Subbarao, Governor, Reserve Bank of India chaired the Central Board meeting. Shri Lakshmi Chand, Shri K.M. Birla, Directors along with newly nominated Directors - Shri Y.H. Malegam, Dr. Anil Kakodkar, Shri Kiran Karnik, Prof. Dipankar Gupta, Shri G.M.Rao, Ms. Ela Bhatt and Dr. Indira Rajaraman were present at the meeting. Deputy Governors Dr. K.C.Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H.R. Khan were also present. The meeting reviewed key economic, monetary and financial developments. The Governor and Deputy Governors also briefed the new Board members on the objective and functions of the various departments of the Reserve Bank.

On the day before the Board meeting, the Reserve Bank Governor and Deputy Governors interacted with the students of local colleges/universities in a town hall event organised at the Birla Auditorium, Jaipur. They also addressed a meeting organised by the Rajasthan Chamber of Commerce, highlighting issues and challenges that the Reserve Bank is currently dealing with.

While in Jaipur, the Reserve Bank Governor met Shri Ashok Gehlot, the Hon'ble Chief Minister of Rajasthan and discussed issues of mutual interest. The Governor and Deputy Governors also met the senior officials of the State and Central Governments, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and bankers apart from the Reserve Bank (officials) in a special State Level Bankers' Committee (SLBC) meeting held on October 12, 2011 in Jaipur.

On October 12, 2011, the Governor inaugurated the Newsibition at Jawahar Kala Kendra, Jaipur in the presence of students from Maharani Gayatri Devi Girls School, Neerja Modi School and Saraswati Senior Secondary School. The Governor briefly interacted with the students and answered their questions relating to the Indian economy and the Reserve Bank functioning.

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Nagar Urban Co-operative Bank Ltd., Ahmednagar, Maharashtra – Penalised

October 13, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five lakh only) on Nagar Urban Co-operative Bank Ltd., Ahmednagar, Maharashtra, in exercise of powers vested in it under the provisions of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of directives/guidelines of the Reserve Bank of India on loans/advances to directors, by purchasing cheques beyond ₹0.50 lakh pertaining to relatives of a director.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and submissions made in the personal hearing, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

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Quarterly Industrial Outlook Survey: October-December 2011 (Round 56)

October 13, 2011

The Reserve Bank of India has launched the 56th round of the Industrial Outlook Survey (IOS) for

* Important Press Releases during October 2011.

reference period October–December 2011. The Reserve Bank has been conducting the Industrial Outlook Survey on a quarterly basis since 1998. The survey gives an insight into the perception of the public and private limited companies engaged in manufacturing activities about their own performance and prospects. The survey covers non-financial private and public limited companies with a good size/industry representation. The assessment of business sentiments for the current quarter and expectations for the ensuing quarter are based on qualitative responses to 20 major parameters covering overall business situation, financial situation, demand indicators, price and employment expectations, profit margins, etc. The survey provides useful forward looking inputs for policymakers, analysts and business alike.

The salient features of the survey results at the aggregate level are published in Monthly Bulletin of the Reserve Bank. The article on 54th round of the survey has been published in the August 2011 issue of the Bulletin under the title 'Quarterly Industrial Outlook Survey: April-June 2011 (54th Round). The article can also be viewed or downloaded from the RBI website http://www.rbi.org.in.

M/s Centre for Research Planning and Action, New Delhi has been mandated to conduct the survey for this quarter on behalf of the Reserve Bank of India. Manufacturing companies will be approached by this agency during the quarter. However, other manufacturing companies who are not approached by the agency can also participate in this survey by downloading the survey schedule from the Reserve Bank's website www.rbi.org.in. The survey schedule is placed under the head Forms and subhead Survey. The duly authenticated filled-in survey schedule may be e-mailed or fax as per contact details given in the survey schedule.

In case of any query/clarification, kindly contact at the following address:

The Director, Division of Enterprise Survey , Department of Statistics and Information Management, Reserve Bank of India, C-8, 2nd floor, Bandra-Kurla Complex, Bandra (East), Mumbai-400051, Phone-022-26578275, 022-26578235; Fax- 022-26571555

Eleven State Governments Announce

Auction of State Development Loans 2021 on October

October 14, 2011

The following eleven State Governments have announced the sale of their 10-year State Development Loans (SDLs) for an aggregate amount of ₹7585.420 crore (face value) through yield based auction using multiple price auction method.

Sr. No.	State	Notified Amount (₹Crore)
1	Andhra Pradesh	375.42
2	Haryana	500.00
3	Jharkhand	500.00
4	Kerala	500.00
5	Madhya Pradesh	1000.00
6	Maharashtra	2000.00
7	Manipur	50.00
8	Meghalaya	60.00
9	Rajasthan	500.00
10	Tamil Nadu*	600.00
11	West Bengal	1500.00
	Total	**7585.42**

*Government of Tamil Nadu will also have an option to retain additional subscription up to a maximum amount of ₹150 Cr (Nominal) over and above the notified amount.

The auction will be conducted by the Reserve Bank of India (RBI) at Mumbai on October 18, 2011 (Tuesday). The Government Stock upto 10 per cent of the notified amount of the sale of each of the stock will be allotted to eligible individuals and institutions subject to a maximum limit of one per cent of its notified amount for a single bid per stock as per the Scheme for Non-competitive Bidding Facility (available in RBI website).

Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) on October 18, 2011 (Tuesday). The non-competitive bids should be submitted between 10.30 A.M. and 11.30 A.M. and the competitive bids should be submitted between 10.30 A.M. and 12.30 P.M.

The yield percent per annum expected by the bidder should be expressed upto two decimal points.

An investor can submit more than one competitive bid at different prices in electronic format on the NDS. However, the aggregate amount of bids submitted by a bidder should not exceed the notified amount for each State.

The Reserve Bank of India will determine the maximum yield at which bids will be accepted. Securities will be issued for a minimum nominal amount of ₹10,000 and multiples of ₹10,000 thereafter.

The results of the auction will be announced on October 18 (Tuesday) and payment by successful bidders will be made during banking hours on October 19, 2011 (Wednesday) at Mumbai and at respective Regional Offices of RBI.

The State Government Stocks will bear interest at the rates determined by RBI at the auctions. Interest will be paid half yearly on April 19 and October 19 of each year till maturity. The Stocks will be governed by the provisions of the Government Securities Act, 2006 and Government Securities Regulations, 2007.

The investment in State Government Stocks will be reckoned as an eligible investment in Government Securities by banks for the purpose of Statutory Liquidity Ratio(SLR) under section 24 of the Banking Regulation Act, 1949. The stocks will qualify for the ready forward facility.

Two More Members Join RBI Board

October 18, 2011

The Government of India has appointed two more members on the Central Board of Directors of the Reserve Bank of India. The new Directors are:

1. Shri Y.H. Malegam, who has been re-appointed from October 7, 2011 vice Shri H. P Ranina.
2. Prof. M.V. Rajeev Gowda who has been appointed from October 17, 2011 vice Shri Lakshmi Chand.

Shri Malegam is a renowned Chartered Accountant. He is also the Chairman of the National Advisory Committee on Accounting Standards, and has been a past President of Institute of Chartered Accountants of India. Prof. Gowda is Professor of Economics and Social Sciences, Indian Institute of Management, Bangalore.

Both the members have been appointed for a period of four years. Prof. Gowda has also been appointed as a Member of the Local Board Southern Area.

Last month, the Government of India nominated seven new members reconstituting the Reserve Bank of India Central Board.

RBI launches Order Books, Inventories and Capacity Utilization

Survey: July-September 2011 (Round 15)

October 19, 2011

The Reserve Bank of India has launched the Fifteenth round of its Order Books, Inventories and Capacity Utilization Survey (OBICUS). The survey is for the reference period July – September 2011.

The Reserve Bank has been conducting Order Books, Inventories and Capacity Utilization Survey (OBICUS) of the manufacturing sector regularly on a quarterly basis. The survey seeks, through a survey schedule, quantitative information on order books, inventories and capacity utilization, such as, pending order books, backlog order books, total inventories, finished goods inventories, work in progress inventories, installed capacity, quantity produced, capacity utilization, value of production, etc., from companies involved in manufacturing activities. The information on installed capacity, quantity produced, value of production, etc., are used for calculating the capacity utilization at industry as well as at an all India level. The survey has been providing a significant input to the Reserve Bank in monetary policy formulation.

M/s Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE), Mumbai, has been mandated to conduct the survey for this quarter on behalf of the Reserve Bank of India. The major manufacturing companies will be approached by the agency during the quarter. Other manufacturing companies that are not approached by the agency can also participate in this survey round by downloading the survey schedule from the Reserve Bank's website www.rbi.org.in. The survey schedule is placed under the Forms and subhead

Survey. The duly authenticated filled-in survey schedule may be e-mailed or faxed to the agency as per contact details provided in survey schedule.

In case of any query/clarification, kindly contact at the following address:

The Director, Division of Enterprise Surveys, Department of Statistics and Information Management, Reserve Bank of India, C-8, 2nd floor, Bandra-Kurla Complex, Bandra (East), Mumbai-400051, Phone-022-26578275, 022-26578235; Fax- 022-26571555.

The Jain Sahakari Bank Ltd., Mumbai – Penalised

October 19, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Jain Sahakari Bank Ltd., Mumbai, Maharashtra, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violations of the directives/ guidelines of Reserve Bank on compliance with Know Your Customers (KYC) norms/Anti Money Laundering (AML) guidelines.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the bank's reply in the matter and submission made during the personal hearing, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

Macroeconomic and Monetary Developments: Second Quarter Review 2011-12

October 24, 2011

The Reserve Bank of India released the Macroeconomic and Monetary Developments Second Quarter Review 2011-12. The document serves as a background to the Monetary Policy Statement 2011-12 to be announced on October 25, 2011. Highlights:

Overall Outlook

While inflation remains sticky, growth risks add to policy complexity

- The baseline inflation path still remains sticky and broadly unchanged from earlier projections. On the other hand, growth risks have increased on account of global headwinds and domestic factors. On current assessment, growth in 2011-12 is likely to moderate slightly from that projected earlier.
- While persistent high inflation is impacting growth, investment is slowing down. The fall in new corporate fixed investment since the second half of 2010-11 has been significant and can impact the pipeline investment in coming years.
- Inflation risk, however, persists. The policy choices have become more complex. In this backdrop, the monetary policy trajectory will need to be guided by the emerging growth-inflation dynamics even as transmission of the past actions is still unfolding.
- Various surveys conducted, both by the Reserve Bank and the outside agencies, suggest that business expectations have suffered, while inflation expectations remain high. As a further step for increased transparency in monetary policy formulation, the Reserve Bank for the first time is releasing surveys conducted by it along with the 'Macroeconomic and Monetary Developments', one day ahead of the policy.

Global Economic Conditions

Global growth in siege from debt overhang

- Prospects for global growth appear to be declining, even though recovery has not stalled so far. There have been significant downward revisions in growth projections. Business and consumer confidence have dampened on the back of euro area sovereign debt crisis. Private sector balance sheets are at risk and significant weakness in the banking sector has re-emerged.
- Global commodity prices, especially those of metals, have softened but have stayed elevated. Even after some correction, the current Brent

crude oil price is still over 25 per cent higher than its average for 2010-11. The IMF has revised upwards its consumer price inflation forecast for EDEs.

Indian Economy

Output

Growth moderating below trend in 2011-12

- Growth in 2011-12 is likely to moderate to below trend. Agriculture prospects remain encouraging with the likelihood of a record Kharif crop. However, moderation is visible in industrial activity and some services.
- In addition to domestic factors, global factors may slow down growth. With the increasing linkage of domestic industrial growth with global industrial cycle, some further moderation is likely ahead, given the weak global PMIs.
- Capacity constraints seem to be easing in some manufacturing segments, especially cement, fertilizers and steel. Construction activity has slowed and leading indicators suggest that going forward, services growth may slightly weaken.

Aggregate Demand

Investment slowdown may impact growth ahead

- Investment demand is softening as a result of combination of factors including monetary tightening, hindrances to project execution, deteriorating business confidence and slowing global economy.
- Planned corporate fixed investment in new projects declined significantly since the second half of 2010-11 and has stayed low in Q1 of 2011-12. Consequently, the pipeline of investment is likely to shrink, putting growth in 2012-13 at risk.
- Private consumption is also starting to soften in parts, but it remains robust overall as is evident from corporate sales performance. Sales growth continues to be healthy, but profits are under pressure.
- Fiscal slippages during 2011-12 may complicate the task of aggregate demand management. Key to growth sustainability lies in supporting investment by rebalancing demand from government consumption to public and private investment.

External Sector

Widening CAD poses risk if global trade and capital flows shrink

- The Current Account Deficit (CAD) widened in Q1 of 2011-12, despite a surge in exports and higher net invisibles receipts. Going forward, exports could decelerate as global growth slows down. Invisible earnings may also decelerate as slow down in US and euro area could impact software exports.
- Sharp decline in FII flows in Q2 of 2011-12 has been largely offset by strong FDI flows. However, capital flows are entering an uncertain phase with increased financial stress and worsening global growth prospects. External sector outlook, although stable, warrants close monitoring.

Monetary and Liquidity Conditions

Liquidity remains comfortable, credit growth stays above trajectory

- During Q2 of 2011-12, liquidity conditions, though in deficit mode in line with the policy objective, remained comfortable. Base money decelerated as currency growth moderated. Money (M3) growth, however, moderated less sharply and remained above the indicative trajectory as the money multiplier increased.
- Bank credit growth is presently above the indicative trajectory. This has been supplemented by increased resource flows from non-banking sources. Going forward, credit growth is expected to moderate as growth slows.
- Monetary policy has been significantly tightened since February 2010 with an effective increase of 500 bps in policy rates and a 100 bps increase in CRR; but monetary transmission is still unfolding and real interest rates remain low and non-disruptive to growth.

Financial Markets

Volatility spillovers to domestic equity and currency markets are contained

- Volatility was high in global financial markets in Q2 of 2011-12. Rising risk aversion caused credit spreads to widen. Volatility spillovers impacted domestic currency and equity markets in a limited way.
- Rupee depreciation and the fall in equity indices in Q2 of 2011-12 were comparable to the patterns in most other emerging markets. Money market rates remained in line with policy signals, while G-sec yields hardened after the announcement of additional market borrowing.

Price Situation

Inflation risks stay as falling global commodity prices provide limited comfort

- High inflation is likely to persist over next couple of months before moderating as falling global commodity prices so far has been offset by rupee depreciation. Incomplete pass-through is likely to limit the impact of falling global commodity prices. Financialisation of commodities leaves future commodity price path uncertain.
- Domestic price pressures still remain significant and broad-based. Food inflation is likely to stay elevated due to demand-supply mismatches in non-cereals and large MSP revisions. Real wage inflation has extended into Q1 of 2011-12. In sum, the inflation challenge remains significant.

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Certificate of Registration of M/s. Cyclo Investments Private Limited - Cancelled

October 24, 2011

The Reserve Bank of India has on August 30, 2011 cancelled the certificate of registration No.09.00053 granted on March 3, 1998 to M/s. Cyclo Investments Private Limited having its registered office at No. 7-1-27, Ameerpet, Hyderabad - 500016 for carrying on the business of a non-banking financial institution. Following cancellation of the registration certificate the company cannot transact the business of a non-banking financial institution.

By the powers conferred under Section 45-IA (6) of the Reserve Bank of India Act, 1934, the Reserve Bank can cancel the registration certificate of a non-banking financial company. The business of a non-banking financial institution is defined in clause (a) of Section 45-I of the Reserve Bank of India Act, 1934.

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The Baroda Traders Co-operative Bank Ltd., Vadodara – Penalised

October 24, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five lakh only) on The Baroda Traders Co-operative Bank Ltd., Vadodara, Gujarat, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for non adherence to Know Your Customers (KYC) norms.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case and the bank's replies in the matter, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

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Second Quarter Review of Monetary Policy for 2011-12 Press Statement by Dr. D. Subbarao, Governor

October 25, 2011

At the outset, on behalf of the Reserve Bank of India, I want to welcome all of you to this Second Quarter Review of Monetary Policy for 2011-12.

2. Earlier this morning, we put out the monetary policy measures accompanying this Review. Based on an assessment of the current macroeconomic situation, we have decided to:

- increase the repo rate under the liquidity adjustment facility (LAF) by 25 basis points. The repo rate will accordingly move up from 8.25 to 8.5 per cent.

3. Accordingly, the reverse repo rate under the LAF, determined with a spread of 100 basis point below the repo rate, gets calibrated to 7.5 per cent. Similarly, the marginal standing facility (MSF) rate, determined with a spread of 100 bps above the repo rate, stands adjusted at 9.5 per cent.

4. These changes have come into effect immediately after the announcement.

5. We have also decided to deregulate the savings bank deposit interest rate with immediate effect. I will come to its details later.

Considerations Behind the Policy Move

6. The decision to persist with monetary tightening has been informed by two broad considerations.

7. First, both inflation and inflation expectations remain high. Inflation is broad-based, and is above the comfort level of the Reserve Bank. We expect these levels to persist for two more months. There are potential risks of expectations becoming unhinged in the event of a pre-mature change in the policy stance. However, reassuringly, momentum indicators, particularly the de-seasonalised quarter-on-quarter headline and core inflation measures, indicate moderation. This is consistent with the projection that inflation will decline beginning December 2011.

8. The second consideration that shaped the policy decision is that growth is clearly moderating on account of the cumulative impact of past monetary policy actions as well as some other factors. As inflation begins to decline, there will be growing room for the policy stance to give due consideration to growth risks, within the overall objective of maintaining a low and stable inflation environment.

9. While the impact of past monetary actions is still unfolding, based on our growth-inflation dynamics, we considered it necessary to persist with the anti-inflationary stance.

Monetary Policy Stance

10. The policy document also spells out the three broad contours of the monetary policy stance. These are:

- to maintain an interest rate environment that contains inflation and anchors inflation expectations;
- to stimulate investment activity to support raising the trend growth; and
- to manage liquidity to ensure that it remains in moderate deficit, consistent with effective monetary transmission.

Guidance

11. As in the past, we have also given guidance for the period forward. The projected inflation trajectory indicates that the rate will begin falling in December 2011 and then continue down a steady path to 7 per cent by March 2012. It is expected to moderate further in the first half of 2012-13. This reflects a combination of commodity price movements and the cumulative impact of monetary tightening. Further, moderating inflation rates are likely to impact expectations favourably. These expected outcomes provide some room for monetary policy to address growth risks in the short run. With this in mind, notwithstanding current rates of inflation persisting till November, the likelihood of a rate action in the December mid-quarter review is relatively low. Beyond that, if the inflation trajectory conforms to projections, further rate hikes may not be warranted. However, as always, actions will depend on the evolving macroeconomic conditions.

12. It must be emphasised, however, that several factors – structural imbalances in agriculture, infrastructure capacity bottlenecks, distorted administered prices of several key commodities and the pace of fiscal consolidation – combine to keep medium-term inflation risks in the economy high. These risks can only be mitigated by concerted policy actions on several fronts. In the absence of progress on these, over the medium term, the monetary policy stance will have to take into account the risk of inflation surging in response to even a moderate growth recovery.

Expected Outcomes

13. We expect that today's policy action and the guidance we have given will result in the following three outcomes:

- first, on the basis of a credible commitment to low and stable inflation, medium-term inflation expectations will remain anchored.
- second, the emerging trajectory of inflation, which is expected to begin to decline in December 2011, will be reinforced.
- and, finally, it will contribute to stimulating investment activity.

Global and Domestic Developments

14. As always, our decision has been based on a careful assessment of the global and domestic macroeconomic situation. Let me summarise that.

Global Economy

15. On the global front, the growth momentum in the US and the euro area economies has weakened. In the euro area, macroeconomic prospects are intimately tied in to its ability to credibly resolve its sovereign debt and financial sector problems. The adverse feedback loops among sluggish growth, weak sovereign balance sheets, large exposures of banks to sovereign debt and political compulsions coming in the way of a credible solution have created a crisis of confidence, which is a potential threat to regional and global financial stability.

16. The trade and financial linkages increase the risks of the euro area instability transmitting through to emerging market economies (EMEs), which have already experienced large volatility in their financial markets, particularly their currency markets. Significantly, while the prices of many commodities declined over the quarter, crude oil prices remained firm. The impact of this on commodity importing EMEs has been exacerbated by currency depreciation.

Indian Economy

17. Turning to the domestic macroeconomic situation, the growth of Indian economy decelerated to 7.7 per cent in the April-June quarter of 2011-12 from 7.8 per cent in the previous quarter. Industrial growth, as measured by the index of industrial production, decelerated to 5.6 per cent during April-August 2011, down from 8.7 per cent in the corresponding period of last year.

18. Growth in the service sector is holding up well, although some moderation is possible here too on account of inter-sectoral linkages. Based on the normal south-west monsoon and first advance estimates that suggest a record *kharif* production, agricultural prospects look good. However, investment demand has slackened reflecting slower clearance and execution of projects, concerns about inflation and rising interest rates.

19. In its May Statement and the July Quarterly Review, the Reserve Bank projected GDP growth of 8.0 per cent for 2011-12. The mid-quarter review of September, however, pointed out that the risk to the growth projection was on the downside.

20. Based on the current and evolving macroeconomic situation, we have revised downwards the baseline projection of GDP growth for 2011-12 to 7.6 per cent.

Inflation

21. Inflation continues to be a major macroeconomic concern. The headline WPI inflation has remained stubbornly high averaging 9.6 per cent during the financial year so far. Inflation has been broad-based, and driven by all the three major groups, *viz.,* primary articles; fuel and power; and manufactured products.

22. As indicated in the First Quarter Review, both the level and persistence of inflation remain a cause for concern. Of larger concern is the fact that even with the visible moderation in growth, inflation has persisted. Reassuringly, there is some comfort coming from de-seasonalised sequential quarterly WPI data which suggest that inflation momentum has turned down.

23. Going forward, the inflation path will be shaped by both demand and supply factors.

- First, it will depend on the extent of moderation in aggregate demand. Some signs of demand moderation are evident, although the impact is being felt more on the investment side.
- Second, the behaviour of crude prices will be a crucial factor in shaping the outlook of domestic inflation in the near future. The benefit of a decline in global crude prices in the recent period has been more than offset by the depreciation of the rupee in nominal terms. Thus, the exchange

rate will also have some impact on the behaviour of domestic petroleum prices.

- Third, the inflation outlook will also depend on the supply response in respect of those commodities characterised by structural imbalances, particularly protein items.
- Finally, there is still an element of suppressed inflation in the economy. Domestic prices of administered petroleum do not reflect the full pass-through of global commodity prices. Prices of coal and a few other commodities do not reflect the current market conditions. As and when price adjustments take place, they will add to inflationary pressures.

24. Keeping in view the domestic demand-supply balance, the global trends in commodity prices and the likely demand scenario, the baseline projection for WPI inflation for March 2012 is kept unchanged at 7 per cent. Elevated inflationary pressures are expected to ease from December 2011, though uncertainties about sudden adverse developments remain.

Liquidity and Monetary Conditions

25. The systemic liquidity deficit remained within one per cent of banks' net demand and time liabilities (NDTL), the comfort zone assessed by the Reserve Bank and consistent with the anti-inflationary stance of monetary policy.

26. This year so far, the money supply (M_3) and credit growth remain above the indicative trajectories of the Reserve Bank. We expect that monetary aggregates will evolve along the projected trajectory indicated in the First Quarter Review. Accordingly, we have retained the M_3 growth projection for 2011-12 at 15.5 per cent and non-food credit growth at 18 per cent.

Risk Factors

27. Now, let me highlight the risks to our growth and inflation projections:

- first, a major downside risk to growth emanates from the global macroeconomic environment;
- second, despite recent moderation, global commodity prices remain high;
- third, the Government has announced increased market borrowings, which can potentially crowd out more productive private sector investment; and,
- fourth, structural imbalances in protein-rich items such as pulses, milk, egg, fish and meat will persist and consequently, food inflation is likely to remain under pressure.

Developmental and Regulatory Policies

28. This Review also includes developmental and regulatory policies. Let me explain briefly some of the important initiatives we have announced.

29. As alluded to earlier, we have decided

- to deregulate the savings bank deposit interest rate with immediate effect; banks are free to determine their savings bank deposit interest rate, subject to the following two conditions:
- First, each bank will have to offer a uniform interest rate on savings bank deposits up to ₹1 lakh, irrespective of the amount in the account within this limit.
- Second, for savings bank deposits over ₹1 lakh, a bank may provide differential rates of interest, if it so chooses. However, there should not be any discrimination from customer to customer on interest rates for similar amount of deposit.

30. Considering the requirement of penetration of banking in rural and semi-urban areas, the Reserve Bank has been liberalising branch authorisation policy. Banks, at present, are permitted to open branches in Tier 3 to Tier 6 centres (with population of up to 49,999) under a general permission, subject to reporting.

31. This liberalisation has led to increased pace in the number of branches opened in Tier 3 to Tier 6 centres. However, it is observed that branch expansion in Tier 2 centres has not taken place at the desired pace. To provide enhanced banking services in Tier 2 centres, it is now proposed:

- to permit domestic scheduled commercial banks (other than RRBs) to open branches in Tier 2 centres (with population 50,000 to 99,999) without the need to take permission from the Reserve Bank in each case, subject to reporting.

32. In the area of financial markets, four important initiatives have been announced.

- First, the Reserve Bank will issue the final guidelines on the cash settled 5-year and 2-year interest rate futures (IRFs), including the final settlement price by end-December 2011.
- Second, guidelines on credit default swaps (CDS) will be made effective by end-November 2011.
- Third, guidelines on short sale in government securities will be issued by end-December 2011.
- Fourth, a Working Group will be constituted to examine and suggest ways for enhancing secondary market liquidity in the G-Sec and interest rate derivatives markets.

33. Moving on to the regulatory measures for commercial banks, let me highlight a few important initiatives we have announced in this review:

- First, the Reserve Bank will issue the final guidelines on internal rating based (IRB) approach for credit risk by end-December 2011.
- Second, a discussion paper will be issued by end-March 2012 on the dynamic provisioning approach for comments.
- Third, a Working Group will be constituted to look into principles governing proper, transparent and non-discriminatory pricing of credit.
- Fourth, another Working Group will be constituted to review the existing prudential guidelines on restructuring of advances by banks/ financial institutions and suggest revisions taking into account the best international practices and accounting standards.

34. Customer service has always been on top of the Reserve Bank's policy agenda. Recognising the need for revisiting the issues of customer service in banks, the Reserve Bank constituted the Damodaran Committee to make recommendations for improving customer service. The Committee has made several recommendations to improve customer service. We have decided to implement the recommendations of the Committee, on which a broad consensus has emerged, as also the action points which were identified by the Indian Banks' Association (IBA) and Banking Codes and Standards Board of India (BCSBI) in the last Banking Ombudsmen conference.

35. The Reserve Bank has also announced two important measures with regard to NBFCs.

- First, a new category of NBFCs called, Non-Banking Financial Company – Micro Finance Institutions (NBFC-MFIs), has been introduced.
- Second, a separate set of guidelines for overseas investment by core investment companies (CICs) in both financial and non-financial sector companies will be issued.

36. Before I close, let me mention that the Reserve Bank is firmly of the view that controlling inflation is imperative both for sustaining growth over the medium-term, and for increasing the potential growth rate. The potential growth rate is not a long term constant; nor is it exogenously determined. It is critically dependent upon policies that create a congenial investment climate and encourage investment activity. The challenge for the Government and the Reserve Bank is to ensure that demand is constrained in the short term to bring inflation down, but at the same time to encourage supply response so as to improve productivity and expand the potential output of the economy in the medium term.

37. I thank you for your attention and best wishes for a Happy Diwali.

Pravara Sahakari Bank Ltd., Ahmednagar – Penalised

October 25, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five lakh only) on Pravara Sahakari Bank Ltd., Ahmednagar, Maharashtra, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of directives/ guidelines of the Reserve Bank of India on maximum limit on advances as modified from time to time, by sanctioning loans to trusts managing different colleges in excess of the single borrower norm

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the bank's reply in the matter and submissions made in the personal hearing, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.