

Press Releases*

March 2011

Shri Lodra Nagarik Sahakari Bank Ltd., Lodra, District Gandhinagar – Penalised

March 1, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Shri Lodra Nagarik Sahakari Bank Ltd., Lodra, District Gandhinagar, 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 (AACS) for violation of RBI instructions on implementation of Know Your Customers (KYC) norms and filing of Cash Transaction Report (CTR) with Financial Intelligence Unit-India (FIU-IND), New Delhi.

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 reply in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Sulaimani Co-operative Bank Limited, Vadodara, Dist. Vadodara – Penalised

March 4, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Sulaimani Co-operative Bank Limited, Vadodara, Dist. Vadodara, 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 (AACS) for not adhering to operational instructions specifically issued to the bank by RBI, other instructions on ceiling on inter-bank deposits, inspection compliance and 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 facts of the case and the bank's reply in the matter, the

* Important Press Releases during March 2011.

Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Madheshwari Urban Development Co-operative Bank Ltd., Madha, Maharashtra – Penalised

March 4, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Madheshwari Urban Development Co-operative Bank Ltd., Madha, 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 (AACS) for violation of Reserve Bank of India's directive on:

- (a) sanctioning unsecured advances (salary loans) beyond the prescribed ceiling of ₹1.00 lakh
- (b) its total unsecured advances exceeded permissible limit of 15.0 per cent of its. Net Demand and Time Liabilities (NDTL)
- (c) granting unsecured advances to Vithalrao Shinde Sahkari Sakhar Karkhana Maryadit whose Chairman and Chairman of the bank was the same person.

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 reply in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Sub-Committee of the Financial Stability Development Council meets

March 4, 2011

The first meeting of the Sub-Committee of the Financial Stability Development Council (FSDC) was

held today in the Reserve Bank of India, New Delhi. Dr. D. Subbarao, Governor, Reserve Bank of India chaired the meeting. The list of members of the Sub-Committee who participated in the meeting are:

Reserve Bank of India (RBI): Dr. D. Subbarao, Governor, Smt. Shyamala Gopinath, Deputy Governor, Dr. K. C. Chakrabarty, Deputy Governor, Dr. Subir Gokarn, Deputy Governor, Shri Anand Sinha, Deputy Governor, Shri V. S. Das, Executive Director.

Government of India (GoI): Smt. Sushma Nath, Finance Secretary and Secretary (Expenditure), Shri R. Gopalan, Secretary, Department of Economic Affairs (DEA), Shri Shashi Kant Sharma, Secretary, Department of Financial Services, Dr. Kaushik Basu, Chief Economic Adviser, Shri Bimal Julka, Additional Secretary & Director General (Directorate of Currency), Thomas Mathew, Joint Secretary (Capital Markets), DEA

Securities and Exchange Board of India (SEBI): Shri U. K. Sinha, Chairman

Insurance Regulatory and Development Authority (IRDA): Shri J. Hari Narayan, Chairman

Provident Fund Regulatory and Development Authority (PFRDA): Shri Yogesh Agrawal, Chairman

The Sub-Committee of the FSDC has been formed to assist the FSDC. The Sub-Committee has replaced the High Level Coordination Committee on Financial Markets.

The Sub-Committee reviewed the developments in the macro economy and the financial markets and deliberated on issues related to:

- The global developments in respect of policies for systemically important financial institutions (SIFIs) and their possible impact on financial institutions in India;
- The existing arrangements for supervision of financial conglomerates;
- Information sharing arrangement among regulators for systemic risk assessment;
- Regulatory issues relating to wealth management/private banking undertaken by banks; and
- Financial stability issues that are of particular relevance to emerging market economies.

RBI sets up Working Group to examine Issues relating to NBFC Sector

March 7, 2011

The Reserve Bank of India has constituted a Working Group under the Chairmanship of Smt. Usha Thorat, Director, Centre for Advanced Financial Research and Learning (CAFRAL) to examine a range of emerging issues pertaining to regulation of the NBFC (non-banking financial companies) sector.

The NBFC sector in India has undergone a significant transformation in the past few years and has come to be recognised as a systemically important element of the financial system. The recent global financial crisis has also highlighted the regulatory imperatives concerning the non-banking financial sector and the risks arising from regulatory gaps, arbitrage and systemic inter-connectedness. A need was, therefore, felt to reflect on the broad principles that underpin the regulatory architecture for NBFCs keeping in view the economic role and heterogeneity of this sector and the recent international experience.

Other members of the Group are Shri Sanjay Labroo, Director, Central Board, Reserve Bank of India, Shri Rajiv Lall, Managing Director and Chief Executive Officer, Infrastructure Development Finance Corporation, Shri Bharat Doshi, Executive Director and Group Chief Financial Officer, Mahindra & Mahindra and Shri Pratip Kar, Director, GlobSyn Business School, Kolkata. Ms. Uma Subramaniam, Chief General Manager-in-Charge, Department of Non-Banking Supervision will be the Member-Secretary.

While examining a range of emerging issues pertaining to the regulation of the sector, the Working Group will focus on the definition and classification of NBFCs, addressing regulatory gaps and regulatory arbitrage, maintaining standards of governance in the sector and appropriate approach to NBFC supervision. The scope of examination will, however, be within the current legislative framework.

The Muslim Co-operative Bank Ltd., Pune, Maharashtra – Penalised

March 8, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Muslim Co-operative Bank Ltd., Pune, 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 (AACS) for violation of instructions/guidelines of the Reserve Bank of India.

The bank had violated the Reserve Bank instructions by making donations over and above the prescribed limit of 1 per cent of the published profits of the bank for the previous year. The bank had violated the above instruction on five occasions between August 1, 2005 and July 27, 2009 and the percentage of donations ranged between 13.40 per cent and 18.20 per cent of the published profits of the previous year.

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 reply in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

RBI refuses Issue of Authorisation to Zoha Inc, USA to Operate Cross-Border Money Transfer Service in India

March 11, 2011

The Reserve Bank of India has refused the authorisation application of Zoha Inc, 291-Grove Street, Jersey City, New Jersey, 07302, USA to operate payment system for cross-border in-bound money transfer services. It has asked Zoha Inc, USA to wind up their existing services for cross-border money transfer to India with immediate effect.

The Reserve Bank has refused the authorisation application of Zoha Inc in exercise of the powers conferred on the Reserve Bank under sub-section 3 of Section 7 of the Payment and Settlement Systems Act, 2007.

The Jai Bhavani Sahakari Bank Limited, Pune – Penalised

March 14, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 1.00 lakh (Rupees one lakh only) on The Jai Bhavani Sahakari Bank Limited, Pune, 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 (AACS) for violation of Reserve Bank of India's directive on Directors related loans.

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 reply in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

RBI releases Report of the Working Group on Operating Procedure of Monetary Policy*

March 15, 2011

The Reserve Bank of India today placed on its website the Report of the Working Group on Operating Procedure of Monetary Policy (Chairman: Shri Deepak Mohanty). Comments on the Report may please be emailed or forwarded by end-March 2011 to the Adviser-in-Charge, Monetary Policy Department, Reserve Bank of India, Central Office, Mumbai 400 001.

Mid-Quarter Monetary Policy Review: March 2011

March 17, 2011

Monetary Measures

On the basis of the current macroeconomic assessment, it has been decided to:

- increase the repo rate under the liquidity adjustment facility (LAF) by 25 basis points from

* The Report is Published as a Supplement to this April Issue of RBI Bulletin.

6.5 per cent to 6.75 per cent with immediate effect; and

- increase the reverse repo rate under the LAF by 25 basis points from 5.5 per cent to 5.75 per cent with immediate effect.

Global Economy

The global scenario presents a mixed picture. While growth in emerging market economies (EMEs) remains strong, that in the US and the Euro area is clearly gaining momentum. However, the sharp increase in oil prices as a result of the turmoil in the Middle East and North Africa is adding uncertainty to the pace of global recovery. Further, coming on top of already elevated food and other commodity prices, the spike in oil prices has engendered inflation concerns.

Inflationary pressures in EMEs are already high as output gaps have narrowed, while headline inflation has risen noticeably in a number of advanced economies, especially in the Euro area and the UK. Consequently, an increasing number of EMEs have begun monetary tightening, while the debate on exit from the accommodative monetary stance has come to the fore in the advanced economies.

It is as yet too early to assess the macroeconomic consequences of the natural disaster in Japan. As normalcy is restored, expenditure on reconstruction may provide a boost to the economy. However, substitution of thermal for nuclear energy in Japan may exert further pressure on petroleum prices.

Domestic Economy

Growth

Central Statistical Organisation's recently released estimate of GDP growth of 8.6 per cent for 2010-11 is consistent with the Reserve Bank's projection set out in the Third Quarter Review. The area sown under the *Rabi* crop is higher than in last year which augurs well for agricultural production. Even as the index of industrial production (IIP) continues to be volatile, other indicators, such as the latest Purchasing Managers' Index (PMI), direct and indirect tax collections, merchandise exports and bank credit, suggest that the growth momentum persists. Lead indicators of services sector activity also remain robust.

However, continuing uncertainty about energy and commodity prices may vitiate the investment climate, posing a threat to the current growth trajectory. In particular, the weak performance of capital goods in the IIP suggests that investment momentum may be slowing down.

Inflation

After a slight moderation in January, headline WPI inflation reversed in February 2011 accompanied by a sharp increase in non-food manufactured products inflation.

As expected, the food article prices have declined substantially since January 2011. However, the prices of protein sources such as milk and eggs, meat and fish' continued to remain high reflecting structural demand-supply imbalances. A number of measures contained in the Budget for 2011-12 to improve the agricultural supply response in the medium-term will aid in redressing these imbalances. Fuel prices remain high, reflecting the global trend, with potential for further rise. Significantly, non-food manufactured products inflation, an indicator of demand side pressure, rose sharply from 4.8 per cent in January to 6.1 per cent in February and continues to stay well above its medium-term trend. The acceleration was spread across manufacturing activities, indicating that producers are able to pass on higher input prices to consumers.

In its Third Quarter Review, the Reserve Bank had projected year-on-year WPI inflation for March 2011 at 7 per cent. However, further upside risks have stemmed from high international crude prices, their impact on freely priced petroleum products, the increase in administered coal prices and pick-up in non-food manufactured product prices. The March 2011 WPI inflation is now estimated to be higher - around 8 per cent.

Fiscal Deficit

While the budgeted level of fiscal deficit for 2011-12 gives some comfort on the demand front, a potential increase in the subsidies on petroleum products and fertilizers as a result of high crude prices could put pressure on expenditure. It is critical, therefore, to focus on the quality of expenditure, keeping the aggregate under control without compromising on the

delivery of services. Only by doing this can the fiscal situation contribute to demand-side inflation management.

Current Account

The Reserve Bank had expressed concern about the widening of the current account deficit (CAD) and the nature of its financing in its Third Quarter Review. Going by the recent robust export performance, CAD for 2010-11 is now estimated to come lower than earlier expected, at around 2.5 per cent of GDP. While the CAD this year has been financed comfortably, it is necessary to focus on the quality of capital inflows with greater emphasis on attracting long-term components, including foreign direct investment (FDI), so as to enhance the sustainability of the balance of payments (BoP) over the medium-term.

Credit Conditions

While the year-on-year non-food credit growth at 23 per cent in February remains above the indicative projection of 20 per cent, the pace of credit expansion has moderated since December 2010. Monetary transmission is increasingly visible as banks continue to raise their lending rates.

Liquidity

Net liquidity injection through LAF declined from an average of around ₹93,000 crore in January to ₹79,000 crore in February 2011, and further to ₹68,000 crore in March (up to March 16) due mainly to increase in government spending and consequent decline in government cash balances with the Reserve Bank. Going forward, the overall liquidity situation is expected to move close to the comfort level of the Reserve Bank (+/- 1 per cent of net demand and time liabilities of banks) although it is likely to come under some temporary pressure in the second half of March due to advance tax collections.

Summing Up

To sum up, the underlying inflationary pressures have accentuated, even as risks to growth are emerging. Rising global commodity prices, particularly oil, are a major contributor to both developments. As domestic fuel prices are yet to adjust fully to global prices, risks

to inflation remain clearly on the upside, reinforced by the persistence of demand-side pressures as reflected in non-food manufacturing inflation. The Union Budget for 2011-12 indicates some easing of demand pressures from the fiscal side, thus creating space for private investment, but this will materialise only if commitments to contain subsidies are adhered to. Measures to increase agricultural productivity, particularly in items facing structural supply-demand imbalances, will contribute to easing food inflation over time.

Expected Outcomes

The policy action in this Review is expected to:

- continue to rein in demand-side inflationary pressures while minimising risks to growth; and
- manage inflationary expectations and contain the spillover of food and commodity prices into more generalised inflation.

Guidance

Based on the current and evolving growth and inflation scenario, the Reserve Bank is likely to persist with the current anti-inflationary stance.

Saptagiri Gramin Bank, Chittoor – Penalised

March 17, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 5.00 lakh (Rupees five lakh only) on Saptagiri Gramin Bank, Chittoor, in exercise of powers vested in it under the provisions of Section 46 read with Section 47 A of the Banking Regulation Act, 1949 for violation of Reserve Bank of India's directives on Know Your Customer 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 facts of the case and the bank's reply in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Certificate of Registration of M/s. Winmore Leasing & Holdings Ltd. – Cancelled

March 21, 2011

The Reserve Bank of India has on January 7, 2011 cancelled the certificate of registration granted on March 4, 1998 to M/s. Winmore Leasing & Holdings Limited having its registered office at 706, Madhuban Building, 55, Nehru Place, New Delhi-110019 for carrying on the business of a non-banking financial institution as the company has voluntarily exited from the business. Following cancellation of the registration certificate the company cannot transact the business of a non-banking financial institution.

Under powers conferred by 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.

The Uttarsanda People Co-operative Bank Limited, Uttarsanda, Dist. Kheda – Penalised

March 23, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Uttarsanda People Co-operative Bank Limited, Uttarsanda, Dist. Kheda, 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 (AACS) for violation of Reserve Bank of India's guidelines of requirement of reporting of cash transactions in excess of ₹10.00 lakh to Financial Intelligence Unit-India (FIU-IND), as required under 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 facts of the case and the bank's reply in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

The Bhabhar Vibhag Nagrik Sahakari Bank Limited, Bhabhar, Dist. Banaskantha – Penalised

March 25, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Bhabhar Vibhag Nagrik Sahakari Bank Limited, Bhabhar, Dist. Banaskantha, 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 (AACS) for violation of Reserve Bank of India's instructions on maintenance of records of cash transactions over ₹10.00 lakh and reporting the same to Financial Intelligence Unit-India (FIU-IND), New Delhi.

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 reply and the submissions made in person in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Issuance Calendar for Marketable Dated Securities for the first half of 2011-12

March 25, 2011

With a view to enabling institutional and retail investors to plan their investment in an efficient manner and providing transparency and stability in the Government securities market, it has been decided to continue with the system of releasing the indicative calendar for issuance of the Government of India securities. Accordingly, an indicative calendar for issue of dated securities for the first half of the year 2011-2012 covering the period from April 1, 2011 to September 30, 2011 is being issued in consultation with the Government.

As hitherto, all the auctions covered by the calendar will have the facility of non-competitive bidding scheme under which five per cent of the notified amount will be reserved for the specified retail investors. Variable rate securities may be issued depending upon the market conditions.

As in the past, the Central Government/Reserve Bank will continue to have the flexibility to bring about modifications in the above calendar in terms of notified amount, issuance period, maturity, *etc.* keeping in view the emerging requirements of the Government, market conditions and other relevant factors after giving due notice.

The Patdi Nagrik Sahakari Bank Limited, Patdi, Dist. Surendranagar – Penalised

March 28, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Patdi Nagrik Sahakari Bank Limited, Patdi, Dist. Surendranagar, 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 (AACS) for certain violations *viz.* non-adherence to Know Your Customer (KYC) norms/Anti-Money Laundering (AML) guidelines, not filing of Cash Transaction Report (CTR)/Suspicious Transaction Report (STR) statements with Financial Intelligence Unit-India (FIU-IND), New Delhi and incomplete rectification of irregularities pointed out in previous inspection report of Reserve Bank of India.

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 reply and also personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Nagrik Sahakari Bank Limited, Babra, Dist. Amreli – Penalised

March 28, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Nagrik Sahakari Bank Limited, Babra, Dist. Amreli, 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 (AACS) for violation of Reserve Bank of India's instructions in respect of reporting of cash transaction above ₹10.00 lakh to

Financial Intelligence Unit-India (FIU-IND), New Delhi and granting of unsecured advances in excess of the prescribed limits.

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 reply and also personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Shree Limbdi Nagrik Sahakari Bank Limited, Limbdi, Dist. Surendranagar – Penalised

March 28, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Shree Limbdi Nagrik Sahakari Bank Limited, Limbdi, Dist. Surendranagar, 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 (AACS) for certain violations *viz.* non-implementation of Know Your Customer (KYC) norms, non-submission of Cash Transaction Report (CTR)/Suspicious Transaction Report (STR) statements with Financial Intelligence Unit-India (FIU-IND), New Delhi and persistence of irregularities pointed out in previous inspection report of Reserve Bank of India.

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 reply and also personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

The Sathamba People's Co-operative Bank Ltd., Sathamba, District Sabarkantha – Penalised

March 29, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Sathamba People's Co-operative Bank Ltd.,

Sathamba, District Sabarkantha, 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 (AACS) for violation of Reserve Bank of India instructions on implementation of Know Your Customers (KYC)/Anti-Money Laundering (AML) guidelines and persistence of irregularities pointed out in previous inspection report of Reserve Bank of India.

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, bank's reply and the submissions made in person in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Scheme of Ways and Means Advances (WMA) to the State Governments for the Fiscal Year 2011-12

March 30, 2011

On a review of the State-wise limits of Normal Ways and Means Advances for the year 2010-

11, the Reserve Bank of India has decided to keep these limits unchanged for the year 2011-12. Accordingly, the aggregate Normal WMA limit for the State Governments inclusive of the Government of Jammu & Kashmir and the Union Territory of Puducherry is placed at ₹10,240 crore for the year 2011-12.

Other terms and conditions of the Scheme would remain unchanged.

Market Stabilisation Scheme: Ceiling for Fiscal Year 2011-12

March 31, 2011

In accordance with the provisions of the Memorandum of Understanding (MoU) on the Market Stabilisation Scheme (MSS), the ceiling for the outstanding balance under the MSS for the fiscal year 2011-12 has been fixed at ₹50,000 crore. This ceiling will be reviewed when the outstanding balance reaches the threshold limit of ₹35,000 crore. The current MSS outstanding balance is nil.