

## Press Release\*

August 2012

### Streamlining of Short Term Co-operative Credit Structure (STCCS) – Formation of Expert Committee

August 1, 2012

The Reserve Bank of India has decided to constitute a Committee to review the existing Short Term Cooperative Credit Structure (STCCS) focusing on structural constraints in rural credit delivery system and explore various ways to strengthen the rural cooperative credit architecture with appropriate institutions and instruments of credit to fulfill credit needs. The Committee will make an in-depth analysis of the STCCS and examine various alternatives with a view to reducing the cost of credit, including feasibility of setting up of a two-tier STCCS as against the existing three-tier structure.

2. The Terms of Reference of the Committee are as given below:

- i. To assess role played by State & District Central Cooperative Banks in fulfilling the requirement of agriculture credit, the primary purpose for which they were set up
- ii. To identify Cooperative Banks that may not be sustainable in the long run even if some of them have met the diluted licensing criteria for the time being
- iii. To suggest appropriate mechanism for consolidation by way of amalgamation, merger, takeover, liquidation and delayering
- iv. To suggest pro-active measures that need to be taken in this direction by the cooperative banks themselves, GOI, State Governments, RBI and NABARD
- v. Any other issues and concerns relevant to the subject matter.

3. Composition of the Committee would be as under:

Chairperson

Shri Prakash Bakshi, Chairman, NABARD.

Members

- i. Shri V. Ramakrishna Rao, Executive Director, NABARD
- ii. Shri Umesh Kumar, Joint Secretary, DFS, MOF, GOI
- iii. Dr. Mona Sharma, Principal Secretary, Cooperation, Govt. of Odisha
- iv. Shri Yadavalli Vijendra Reddy, President, A.P. State Coop. Bank
- v. Dr. B. Yerram Raju, Director, Dev. & Research Services (P) Ltd.
- vi. Dr. H. Shylendra, Professor, Institute of Rural Management, Anand

Shri C. D. Srinivasan, Chief General Manager, Reserve Bank of India, Rural Planning and Credit Department will be the Member Secretary.

The Secretarial assistance to the Committee will be provided by the NABARD, Head Office.

4. The Committee will submit its report within three months from the date of its first meeting.

### Ernakulam District Co-operative Bank Ltd. – Penalised

August 1, 2012

The Reserve Bank of India has imposed a monetary penalty of ` 5.00 lakh (Rupees five lakh only) on Ernakulam District Co-operative Bank Limited, Ernakulam (Kerala), 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 violating provisions of the Section 29(1)(b) of the Act ibid by

\* Important Press Releases during August 2012.

granting unsecured loans to M/s Mithra Agricultural Produce Committee (MAPC) and violation under Section 6(1)(i) and Section 29(1)(b) of the Act *ibid* in case of Rural Academy of Management Studies (RAMS) and other violation of the provisions of the Act *ibid* as mentioned in the show cause notice issued to the Bank.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. Based on the reply, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

### **Reserve Bank rejects the application for grant of licence of The Premier Automobiles' Employees Co-operative Bank Ltd., Mumbai, (Maharashtra)**

August 3, 2012

The Reserve Bank of India [the Bank] delivered the order rejecting the application dated May 31, 1966 for grant of licence submitted by The Premier Automobiles' Employees Co-operative Bank Ltd., Mumbai (Maharashtra) [the bank], to carry on banking business in India under Section 22 of the Banking Regulation Act, 1949 (AACS) [the Act] after being satisfied that the bank does not fulfil the conditions as required in terms of Section 22 (3) of the Act. The order is effective from the close of business on July 23, 2012 and makes it obligatory on the part of the bank to stop conducting the business of 'banking' within the meaning of Section 5(b) of the Act, with immediate effect. The Registrar of Co-operative Societies, Maharashtra has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank. It may be highlighted that on liquidation, every depositor is entitled to repayment of his/her deposits up to a monetary ceiling of ₹ 1,00,000/- (Rupees One lakh only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC) under usual terms and conditions.

Based on the findings of the statutory inspection of the bank conducted by the Bank under Section 35 of

the Act with reference to its financial position as on March 31, 2006, the bank was *inter alia* advised in the post inspection meeting to explore the possibility of merger with another bank to safeguard the interests of its depositors or consider going out of the purview of the Act. This was also conveyed to the bank vide letter dated September 04, 2007. However, the bank did not take any action in this regard.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2007 revealed various deficiencies/irregularities in its working. Based on the findings of the inspection as on March 31, 2007 the bank was imposed supervisory action vide letter UBD.MRO.BSS.II/3358/12.07.184/2007-08 dated March 25, 2008 restricting it from opening ATMs extension counters/branches and extending the area of operation, declaration of dividend without permission of the Bank and acquiring or shifting its office premises.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2009 revealed that several deficiencies continued to persist in the bank. The gross and net NPA increased from 34.9 per cent as on March 31, 2007 to 43.0 per cent as on March 31, 2009. The bank, in its application dated May 31, 1966 to the Bank for grant of licence had stated that the membership would be restricted to permanent employees of Premier Automobiles Ltd. Bye-laws of the bank provide for membership to persons who are not employees of Premier Automobiles Ltd. in violation of paragraph 1(ii) of circular UBD.No.BL.(SEB) 5A/07.01.00/2001-02 dated August 8, 2001 of the Bank. As reported by the bank, out of a total membership of 3400 as on March 31, 2010 of which 1150 members were not employees of the parent company. The bank had given loans to several persons who were not employees of Premier Automobiles Ltd.

In view of the major deficiencies/irregularities observed in its working and in public interest and in the interest of the depositors, to prevent preferential payment and alienation of assets of the bank, directions under Section 35A of the Act were imposed on the bank

vide directive UBD.CO.BSD-1No.D-02/12.22.184/2010-11 dated July 28, 2010 by the Bank (effective from the close of business as on August 2, 2010). The directions, among others, prohibited acceptance of fresh deposits and further lending and restricted repayment of deposits up to a maximum of ` 1000/- per depositor.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2010 revealed that the financial position of the bank had further deteriorated. The assessed net worth of the bank had declined from ` 114.25 lakh as on March 31, 2009 to ` 83.71 lakh as on March 31, 2010. The gross NPAs of the bank had increased from 43.0 per cent of gross advances as on March 31, 2009 to 49.3 per cent as on March 31, 2010. The net NPAs of the bank had increased from 7.7 per cent of net advances to 10.9 per cent during the same period. Performance of the bank in recovery of NPAs was not satisfactory as additions to NPAs far exceeded recoveries. The bank could not contain accretion to NPAs. Assessed net loss of the bank increased from ` 15.70 lakh during 2008-09 to ` 25.35 lakh during 2009-10. The bank had heavily relied on high cost deposits thereby adversely affecting its profitability. Neither the Board nor the senior management took initiative in framing risk management policies of the bank. The performance of the committees of the Board was not satisfactory. The bank had violated RBI guidelines UBD.PCB.Cir.POT.39 09.103.01/2001-02 dated April 5, 2002 read with UBD.PCB.Cir.41/09.103.01/2007-08 dated April 21, 2008 on induction of professional directors on the Board of the bank.

The statutory inspection of the bank conducted by the Bank under Section 35 of the Act with reference to its financial position as on March 31, 2011 revealed that the financial position had further deteriorated. Assessed net worth further declined and stood at ` 62.49 lakh. Gross NPAs increased to ` 193.26 lakh (64.0 per cent) and net NPAs increased to ` 40.19 lakh (27.0 per cent) as on March 31, 2011. Recovery of NPA was not found to be satisfactory. As against recoveries of ` 5.90 lakh, fresh additions to NPAs during 2010-11 stood at ` 28.81 lakh. The assessed net loss incurred by the bank

stood at (-) ` 18.51 lakh as on March 31, 2011. The bank has been incurring losses continuously and all profitability ratios had turned negative. The bank had admitted as members employees of WIMCO, Ambernath Nagar Parishad, ECK Haubod, etc. and had granted loans to some of them in violation of instructions contained in paragraph 1(ii) of circular UBD.No.BL.(SEB) 5A 07.01.00/2001-02 dated August 8, 2001 of the Bank. No procedure was laid down to identify, measure, monitor and control various risks to which the bank is exposed.

The deterioration in bank's financial position showed the inability of the management to bring about any major improvement and arrest the deteriorating financial position of the bank. The performance of the Board of the bank was not satisfactory as it could not take initiative in framing risk management policies of the bank. It is noted from the bank's letter dated April 27, 2012 that the bank had acquired immovable property from Kohinoor Planet Constructions Pvt. Ltd. in exchange of premises which was being developed by the company by virtue of an agreement, during the pendency of the all-inclusive directions imposed under Section 35A of the Act on the bank vide directive UBD.CO.BSD-1No.D-02/12.22.184/2010-11 dated July 28, 2010 and supervisory action imposed vide letter UBD.MRO.BSS-II/3358/12.07.184/2007-08 dated March 25, 2008 restraining the bank, *interalia*, from acquiring or shifting its office premises.

The bank was issued a Show Cause Notice vide letter UBD.CO.BSD-I/SCN/67/12.22.184 2011-12 dated January 12, 2012 advising to show cause within thirty days from the date of receipt of the notice, as to why its application dated May 31, 1966 for grant of licence to carry on banking business under Section 22 of the Act should not be rejected and why steps should not be taken to wind up the bank. The bank's reply dated March 1, 2012 was examined but was not found to be satisfactory.

Serious deficiencies as mentioned above revealed that the affairs of the bank were being conducted in a manner detrimental to the interest of its depositors. It was observed that all the major financial parameters of the bank had deteriorated. There was no viable merger

proposal or for conversion into a society by the bank. The bank had not submitted documentary evidence for having brought out any improvement.

The bank did not fulfil the applicable EPN and had allowed outsiders to be members of the salary earner's bank in violation of extant instructions. The capital structure and earning prospects of bank has been declining and the bank is not complying with Section 22(3)(d) of the Act. The deterioration in bank's financial position showed the inability of the management in arresting the same. Thus, the affairs of the bank are being conducted in a manner detrimental to the interest of its present future depositors in violation of section 22(3)(b) of the Act and the general character of the management of the bank is prejudicial to the public interest or the interest of its depositors in violation of section 22(3)(c) of the Act.

Therefore, the Bank took the extreme measure of rejection of application of the bank for grant of licence, in the interest of bank's depositors. With the rejection of application for grant of licence and commencement of liquidation proceedings, the process of paying the depositors of the Premier Automobiles Employees' Co-operative Bank Ltd., Mumbai (Maharashtra), the amount insured as per the DICGC Act, will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Premier Automobiles Employees' Co-operative Bank Ltd., Mumbai (Maharashtra) is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Act.

For any clarifications, depositors may approach Smt. K.S. Jyotsna, Deputy General Manager, Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, Mumbai, whose contact details are as below:

Postal Address: Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, 2nd Floor, Garment House, Dr. A.B. Road, Worli, Mumbai-400018; Telephone Number: (022) 24920225, Fax Number: (022) 24935495.

## **Shri Arvind Mayaram, Secretary, Department of Economic Affairs nominated on RBI Central Board**

August 7, 2012

In exercise of the powers conferred by clause (d) of sub-section (1) of Section 8 of the Reserve Bank of India Act, 1934, the Central Government has nominated Shri Arvind Mayaram, Secretary, Department of Economic Affairs, Ministry of Finance, New Delhi as a director on the Central Board of Directors of the Reserve Bank of India with effect from August 7, 2012 and until further orders vice Shri R. Gopalan.

## **RBI transfers surplus profit to Government of India**

August 9, 2012

The Reserve Bank's Central Board, at its meeting held today, approved the transfer of surplus profit to the Government of India amounting to ` 160.10 billion for the year ended June 30, 2012 as against ` 150.09 billion for the year ended June 30, 2011.

## **Sarvodaya Commercial Co-operative Bank Ltd., Mehsana. (Gujarat)- Penalised**

August 9, 2012

The Reserve Bank of India has imposed a monetary penalty of ` 1.00 lakh (Rupees One Lakh only) on the Sarvodaya Commercial Co-operative Bank Ltd., Mehsana (Gujarat) in exercise of the powers vested in it under the provisions of Section 47A (1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of the directives/guidelines issued by the Reserve Bank of India on Know Your Customer (KYC) and Anti Money Laundering (AML).

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, the bank's reply and also personal submissions in the matter, RBI came to the conclusion

that the violation was substantiated and warranted imposition of penalty.

### **RBI Central Board meets today in Mumbai**

August 9, 2012

The Central Board of Directors of the Reserve Bank of India met today at Mumbai. Dr. D. Subbarao, Governor, Reserve Bank of India chaired the meeting. Shri Anil Kakodkar, Shri Kiran Karnik, Shri Y. H. Malegam, Shri Azim Premji, Shri Dipankar Gupta, Shri Najeeb Jung, Shri G. M. Rao, Ms. Ela Bhatt and Dr. Indira Rajaraman were present at the meeting. Deputy Governors of the Reserve Bank, Dr. K.C. Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H R Khan were also present. The meeting was also attended by Shri D.K. Mittal, Secretary, Financial Services and Dr. Arvind Mayaram, Secretary, Economic Affairs Government nominee directors on the Central Board. Dr. Mayaram has replaced Shri R. Gopalan on the Central Board post his superannuation. The meeting reviewed key economic, monetary and financial developments in the country.

The Central Board meets at least once every quarter. Apart from holding meetings in Mumbai, Chennai, Kolkata and one in New Delhi after the Union Budget which is addressed by the Finance Minister – the rest of the meetings are held in other state capitals by rotation. The main function of the Central Board of Directors of the Reserve Bank is to provide overall direction to the Reserve Bank's affairs.

RBI Governor asks Banks and State Government to make Financial Inclusion More Meaningful

Later, at a specially convened meeting of the State Level Bankers Committee (SLBC), Governor Dr. D. Subbarao met chairmen of select public sector banks and senior officials of the State Government and the Reserve Bank to discuss State specific issues. The following decisions were taken at this meeting:

- Banks should ensure qualitative coverage of Financial Inclusion through proper functioning of BCs.

- To improve the quality of financial inclusion, banks would ensure that the no-frill accounts opened with them are for all purposes and not linked to just one government scheme.
- In four identified districts of Maharashtra, four lead banks would organise a convention of banking correspondents before September 15, 2012 to assess the issues affecting the smooth operation of the BC-ICT Model in the villages. State Government would nominate District Collector to the convention.
- Banks should ensure to open accounts for every household in 8 blocks identified last year in Maharashtra and 5 more districts identified in the Union Budget. The account would be all purpose accounts and would be linked to transmitting payments to account holders for all purpose. District administration will make available updated list of beneficiaries of various social and subsidy schemes for the purpose.
- In the 7 districts, where DCCBs are under Direction, Lead Banks would take support of PACS to fill up applications for crop loans and process them expeditiously. Registrar of Cooperative Societies would lend his support in expediting the job.
- In case of RSETIs, where land has been allocated and financial grant has been released by government, banks should ensure that the training establishments are set up at the earliest.

### **Certificate of Registration of Maruti Securities Limited Cancelled**

August 10, 2012

The Reserve Bank of India has on June 13, 2012 cancelled the certificate of registration No. 09.00196 dated November 13, 1998, issued to Maruti Securities Limited, having its registered office at Plot No.66, Park View Enclave, Hasmatpet Road, Hyderabad-500009 for carrying on the business of a non-banking financial

institution as the company has voluntarily exited from carrying on NBFIs activities. 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.

### **Modified Directions on The Municipal Co-operative Bank Ltd., Ahmedabad**

August 10, 2012

The period of directions imposed by Reserve Bank of India (RBI) on The Municipal Co-operative Bank Ltd., Ahmedabad, vide its directive UBD.CO.BSD II No./D-70/12.21.114/2011-12 dated February 01, 2012, expiring on August 14, 2012, has since been further extended by six months *i.e.* up to February 14, 2013, subject to review, vide modified directive No. UBD.CO.BSD II/D-02/12.21.114/2012-13 dated July 25, 2012, in exercise of the powers vested under sub-section (1) of Section 35 A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). The detailed modified directive is displayed on the bank's premises for interested members of the public to peruse.

### **Directions under Section 35A of the Banking Regulation Act, 1949 (AACs) – The Kokan Prant Sahakari Bank Ltd, Mumbai, Maharashtra**

August 10, 2012

It is hereby notified for information of the public that in exercise of powers vested in it under sub section (1) of Section 35A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) read with Section 56 of the Banking Regulation Act, 1949, the Reserve Bank of India has issued certain Directions to The Kokan Prant Sahakari Bank Ltd., Mumbai, Maharashtra whereby, as from the close of business on

August 7, 2012, the aforesaid bank shall not, without prior approval of RBI in writing grant or renew any loans and advances, make any investment, incur any liability including borrowal of funds and acceptance of fresh deposits, disburse or agree to disburse any payment whether in discharge of its liabilities and obligations or otherwise, enter into any compromise or arrangement and sell, transfer or otherwise dispose of any of its properties or assets except as notified in the RBI Directions dated August 6, 2012, a copy of which is displayed on the bank's premises for perusal by interested members of the public. In particular, a sum not exceeding ` 1000/- (Rupees one thousand only) out of the total balance held in every savings bank current account or any other deposit account may be allowed to be withdrawn subject to the conditions stipulated in the above RBI Directions.

The issue of the above Directions by the RBI should not per se be construed as cancellation of banking licence by RBI. The bank will continue to undertake banking business with restrictions till its financial position improves. The Reserve Bank of India may consider modifications of these Directions depending upon circumstances.

### **Directions under Section 35A of the Banking Regulation Act, 1949 (AACs) – The Arjun Urban Co-operative Bank Ltd, Solapur, Maharashtra**

August 10, 2012

It is hereby notified for information of the public that in exercise of powers vested in it under sub section (1) of Section 35A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) read with Section 56 of the Banking Regulation Act, 1949, the Reserve Bank of India has issued certain Directions to The Arjun Urban Co-operative Bank Ltd., Solapur, Maharashtra whereby, as from the close of business on August 7, 2012, the aforesaid bank shall not, without prior approval of RBI in writing grant or renew any loans and advances, make any investment, incur any liability including borrowal of funds and acceptance of fresh deposits, disburse or agree to disburse any payment

whether in discharge of its liabilities and obligations or otherwise, enter into any compromise or arrangement and sell, transfer or otherwise dispose of any of its properties or assets except as notified in the RBI Directions dated August 6, 2012, a copy of which is displayed on the bank's premises for perusal by interested members of the public. In particular, a sum not exceeding ` 1000/- (Rupees one thousand only) out of the total balance held in every savings bank current account or any other deposit account may be allowed to be withdrawn subject to the conditions stipulated in the above RBI Directions.

The issue of the above Directions by the RBI should not per se be construed as cancellation of banking licence by RBI. The bank will continue to undertake banking business with restrictions till its financial position improves. The Reserve Bank of India may consider modifications of these Directions depending upon circumstances

### **The Bharath Co-operative Bank Ltd., Bangalore, Karnataka – Penalised**

August 10, 2012

The Reserve Bank of India has imposed a monetary penalty of ` 5.00 lakh (Rupees five Lakh only) on The Bharath Co-operative Bank Ltd., Bangalore, Karnataka, in exercise of the powers vested in it under the provisions of Section 47A (1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of the Reserve Bank of India's instructions contained in Circular UBD. BPD.Cir.50/13.05.00/2002-03 dated April 29, 2003 read you're the Directive UBD.BPD.Cir.5/13.05.00/2002-03 dated April April 29, 2003 and the Circular UB No.BPD. CIR/54/13.05.00/2002-03 dated June 24, 2003 for sanctioning/renewing of loans and advances to directors, their relatives and firms/concerns in which the directors are interested and suppressing of such information by not reporting the same in the relevant quarterly statement in proforma I & II submitted to the Reserve Bank of India and also for furnishing false information to the Inspecting Officer of Reserve Bank.

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, the bank's reply and also personal submissions in the matter, RBI came to the conclusion that the violation was substantiated and warranted imposition of penalty.

### **RBI releases Report of Working Group on Enhancing Liquidity in Government Securities and Interest Rate Derivatives Markets**

August 13, 2012

The Reserve Bank of India today, placed on its website, the report of the Working Group on Enhancing Liquidity in Government Securities and Interest Rate Derivatives markets. The Group has made various recommendations, which have been categorised into essential recommendations, desirable recommendations and operational recommendations. Some of the important recommendations made by the Group are:

#### (a) Government Securities Market

- Consolidation of outstanding Government securities, based on model plan indicated in the report;
- Allocation of specific securities to each Primary Dealer for market making in them;
- Gradual increase in the investment limit for Foreign Institutional Investors in Government securities keeping in view the country's overall external debt position, current account deficit, size of Government's borrowing programme, etc.;
- A roadmap to gradually bring down the upper-limit on the Held-to-Maturity portfolio in a calibrated manner to make it non-disruptive to the entities and other stakeholders may be prepared; and

- Promotion of the term-repo market with suitable restrictions on 'leverage' and introduction of tripartite repo in Government securities.
- (b) Retail Participation
- Services of banks (and post offices if possible at a later stage and in consultation with Government of India) may be utilised as a distribution channel and nodal point for interface with individual investors; and
  - A centralised market maker for retail participants in Government securities in the long-term who would quote two-way prices of Government securities for retail/individual investors may be considered.
- (c) Interest Rate Derivatives Market
- An electronic swap execution facility (electronic trading platform) for the Interest Rate Swap (IRS) market may be introduced with a Central Counter Party mechanism for guaranteed settlement through the electronic platform;
  - Insurance companies, Provident Funds and other financially sound entities be permitted to participate in IRS market;
  - Futures contracts that have high probability of attracting participant interest, such as Interest Rate Futures (IRF) based on overnight call borrowing rate to be introduced; and
  - Cash-settled 10-year IRF subject to appropriate regulations like restricted participation, entity-based open position limit, price band, *etc.*, to be introduced.

The Reserve Bank would examine and initiate appropriate action on the recommendations made by the Working Group.

### **Background**

It may be recalled that in terms of the announcement made in the Second Quarter Review of Monetary Policy

of 2011-12 (para 71), a Working Group comprising market experts, officials of the Reserve Bank and other stakeholders was constituted under the Chairmanship of Shri R. Gandhi, Executive Director, Reserve Bank of India. Other members of the Group were: Prof. Sankar De (Indian School of Business, Hyderabad), Shri K Venugopal (Chief General Manager, State Bank of India), Shri Ajay Marwaha (Executive Vice President, HDFC Bank), Shri Soumyo Dutta (Managing Director, Citi Bank), Shri C.E.S. Azariah (Chief Executive Office, Fixed Income and Money Market Dealers Association), Shri Pradeep Madhav (Chairman, Primary Dealers Association of India), Shri Ravi Rajan (Executive Vice President, Clearing Corporation of India Limited), Shri Deepak Singhal (Chief General Manager, Reserve Bank of India) Shri G. Mahalingam (Chief General Manager, Reserve Bank of India), Shri Michael D. Patra (Adviser, Reserve Bank of India), Shri R. N. Kar (Chief General Manager, Reserve Bank of India) and Shri K. K. Vohra (Chief General Manager, Reserve Bank of India). The draft report of the Group was placed on RBI website on May 31, 2012 for public comments. The Working Group has finalised its report after taking into account the feedback received from market participants and other stakeholders.

### **Rupee Co-operative Bank Ltd., Pune (Maharashtra)- Penalised**

August 14, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees Five Lakh only) on the Rupee Co-operative Bank Ltd., Pune (Maharashtra) in exercise of the powers vested in it under the provisions of Section 47A (1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of the instructions/guidelines of the Reserve Bank of India.

The statutory inspection of the bank under Section 35 of the Act with reference to its financial position as on March 31, 2011 had revealed that the bank had violated RBI instructions issued to the bank vide letter No. UBD.CO.BSD(SCB)/01.12 12.03.941/2003-04 dated June 23, 2004 by granting term loans to some borrowers



much in excess of the limit of ` 10.00 lakh prescribed vide the operational instructions. The bank had also sanctioned fresh Cash Credit limit to the existing borrowers in excess of ` 10.00 lakh, in 4 cases, in violation of the operational instructions.

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, the bank's reply and also personal submissions in the matter, RBI came to the conclusion that the violation was substantiated and warranted imposition of penalty.

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### **Dr. K. C. Chakrabarty re-appointed as RBI Deputy Governor**

August 17, 2012

Government of India has re-appointed Dr. K. C. Chakrabarty as Deputy Governor, Reserve Bank of India, for a period up to June 30, 2014 *i.e.* till he attains the age of 62 years or until further orders, whichever is earlier. As per the earlier Government's notification, his three months term would have come to an end on September 14, 2012.

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### **RBI releases Minutes of Technical Advisory Committee on Monetary Policy**

August 21, 2012

The Reserve Bank of India today released on its website the minutes of its Technical Advisory Committee (TAC) on Monetary Policy.

Since February 2011, the Reserve Bank has been placing the main points of discussions of the TAC on Monetary Policy meetings in the public domain with a lag of roughly four weeks after the meeting.

#### **Minutes**

The twenty-ninth meeting of the Technical Advisory Committee on Monetary Policy (TAC) was held on July 25, 2012 in the run-up to the First Quarter Review of Monetary Policy 2012-13 on July 31, 2012. The main points of discussion in the meeting are set

out below.

1. Members were unified in their assessment of the global macroeconomic environment. They felt that the evolving global situation is much worse than it was at the beginning of the year. US growth is decelerating, the European crisis appears to be deepening, although Europe has shown commitment to the Union, and there is increasing evidence of China's growth slowdown.

They felt that global growth is likely to slow down further. With droughts in the US, Eurasia and Australia, global food stocks are likely to go down to all-time lows, and global food inflation could be high. Although softening of oil prices has helped India and there is some evidence of improvement in oil supplies, inflationary pressures could spill over to metal, oil and other commodities, if there is further quantitative easing in the US or Europe.

2. On domestic macroeconomic concerns, Members felt that the current situation is by far the most difficult, in the last several years. Infrastructural bottlenecks in power, coal, and transport seem to have worsened, causing serious supply side pressures. With weaknesses in power and aviation sectors, public-private-partnership projects are getting impacted, which entails the risk of lowering private investment in infrastructure. The manufacturing sector is at a standstill, with not only the capital goods industry in a bad shape, but also the short-cycle consumer products registering a contraction. Due to weak monsoon, there could be a shortfall in the output of the agricultural sector. In sum, Members felt that there is growing evidence of slowdown of domestic growth.
3. All Members felt that with the monsoon failure, food prices might go up significantly due to a substantial agricultural shortfall. One Member felt that the high food stocks could

restrain upward pressure on foodgrain prices but another Member felt that they might not be of much help because of part of the stocks not being of edible quality. Wage pressures remain significant, particularly in rural areas. Moreover, structural problems, such as those in proteins items, are keeping non-core inflation high. Additionally, inflation concerns stem from suppressed inflation and tightening supply bottlenecks in infrastructure. The economy is in a bind with slackening growth and elevated inflation, but the remedies, Members felt, lie with the Government.

4. On the fiscal front, many Members apprehended that there could be a slippage in the fiscal deficit in 2012-13. According to some Members, diesel price revision to contain subsidies looks very difficult due to the looming drought situation. Members also felt that the twin deficits remain a serious concern for India.
5. Most Members observed that India's external sector concerns had increased considerably. FDI has slowed down while the current account deficit (CAD) remains high, although there was some improvement in the last quarter as international oil prices and gold imports fell. Unless big-ticket FDI projects get clearance, the situation is unlikely to improve. Members, however, cautioned against excessive reliance on short-term foreign debt to finance the CAD.
6. Members had divergent views on monetary policy and liquidity measures. Of the seven external Members, five suggested that the Reserve Bank should not change the policy rate. They felt that given the fiscal dominance,

double-digit consumer price inflation and no realistic expectation of credible action from the Government, the Reserve Bank needs to focus on tempering inflation expectations. Of these five Members, one suggested that adequate liquidity should be available in the system to support growth for which either the cash reserve ratio (CRR) should be reduced by 25 basis points or the open market operations (OMOs) should be more active. Another Member was of the view that the CRR is already low and it might be preserved for a worse situation, but more aggressive OMOs could be used to improve reserve money growth and further ease the liquidity conditions.

7. The remaining two of the seven external Members suggested that there could be a symbolic reduction in the policy rate by 25 basis points to stimulate investment. One of them also suggested a reduction in the CRR by 25 basis points.
8. The meeting was chaired by Dr. D. Subbarao, Governor. Other internal Members present were: Dr. Subir Gokarn, Vice-Chairman, Deputy Governors, Dr. K.C. Chakrabarty, Shri Anand Sinha and Shri H.R. Khan; and external Members, Shri Y.H. Malegam, Dr. Rakesh Mohan, Prof. Indira Rajaraman, Prof. Sudipto Mundle, Prof. Errol D'Souza and Prof. Ashima Goyal. Dr. Shankar Acharya could not attend the meeting but submitted his written views. RBI officials, Shri Deepak Mohanty, Dr. Michael D. Patra, Dr. Janak Raj, Dr. B.K. Bhoi, Shri B.M. Misra and Shri Pardeep Maria were in attendance.