*Press Release**

September 2012

Shri Y. C. Deveshwar nominated on RBI Central Board

September 5, 2012

In exercise of the powers conferred by clause (c) of sub-section (1) of Section 8 of the Reserve Bank of India Act, 1934, the Central Government has nominated Shri Y. C. Deveshwar, as a director on the Central Board of Directors of the Reserve Bank of India for a period of four years with effect from September 3, 2012.

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Reserve Bank Cancels the licence of Rajiv Gandhi Sahakari Bank Ltd., Latur, Maharashtra

September 12, 2012

In view of the fact that Rajiv Gandhi Sahakari Bank Ltd., Latur, Maharashtra (hereinafter referred to as 'the bank') is not in a position to pay its present and future depositors, the affairs of the bank are being conducted in a manner detrimental to the interest of the depositors and the financial position of the bank leaves no scope for its revival, the Reserve Bank of India (hereinafter referred to as 'RBI') on August 30, 2012 delivered the order to the bank cancelling its licence for conducting banking business. Registrar of Co-operative Societies, Pune has also been requested to issue an order for winding up the bank and appoint 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.

The bank was granted a licence by RBI on December 15, 1997 under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies) (hereinafter referred to as 'the B. R. Act') to conduct banking business. As per the statutory inspection of the bank conducted under Section 35 of the Banking Regulation Act, 1949 (AACS) with reference to its financial position as on September 30, 2004, its net NPAs were assessed at 23.5 per cent, networth at (-)`16.14 lakh, CRAR at (-)7.8 per cent and accumulated losses at `21.41 lakh.

The statutory inspection of the bank conducted under Section 35 of the B. R. Act with reference to March 31, 2006 revealed that its financial position had deteriorated further. The bank was issued operational instructions under Section 36 (1) of the B. R. Act vide RBI letter dated October 6, 2006 which, inter alia, prohibited the bank from accepting fresh deposits, allowing pre-mature withdrawal of term deposits and sanctioning fresh loans and advances.

The statutory inspections of the bank conducted under Section 35 of the B. R. Act with reference to its financial position as on March 31, 2007 and March 31, 2008 did not show any significant improvement in the financials of the bank.

The statutory inspection of the bank conducted with reference to its financial position as on March 31, 2010 revealed deterioration in the financial position with assessed net worth at (-)`22.85 lakh, CRAR at (-)15.4 per cent, gross NPAs at 35.2 per cent of gross advances, assessed loss at `58.32 lakh and deposit erosion at 11.9 per cent. TAFCUB reviewed the findings of the inspection report as on March 31, 2010 in its meeting held on June 23, 2011 and recommended supersession of the Board of Directors and imposition of directions followed by issue of Show Cause Notice (SCN) for cancellation of licence. Accordingly, directions under Section 35A of the B. R. Act were imposed on the bank vide Order dated August 2, 2011 which were extended from time to time. Further, on the basis of RBI requisition dated August 2, 2011 for supersession of the Board, RCS vide his order dated August 16, 2011 superseded the board and appointed the administrative board on August 16, 2011.

* Important Press Releases during September 2012.

The latest statutory inspection of the bank with reference to its position as on March 31, 2011 revealed sharp deterioration in the financial position of the bank. The real or exchangeable value of the paid-up capital and reserves (net-worth) had deteriorated from (-)`22.85 lakh as on March 31, 2010 to (-)`98.40 lakh as on March 31, 2011 and thus the bank did not comply with Sections 11(1) and 22(3) of B. R. Act. The CRAR of the bank deteriorated from (-)15.4 per cent as on March 31, 2010 to (-)41.8 per cent as on March 31, 2011. Assessed gross and net NPAs increased from `67.12 lakh (35.2 per cent) and `54.82 lakh (30.7 per cent) as on March 31, 2010 to `148.92 lakh (99.0 per cent) and `129.13 lakh (93.5 per cent) as on March 31, 2011. The assessed losses increased from `58.32 lakh during 2009-10 to `129.27 lakh during 2010-11 whereas assessed accumulated losses of the bank increased from `68.68 lakh as on March 31, 2010 to `133.87 lakh as on March 31, 2011. The deposit erosion increased from 11.9 per cent as on March 31, 2010 to 52.8 per cent as on March 31, 2011

Keeping in view the deterioration in the financial position of the bank a Show Cause Notice (SCN) dated May 17, 2012 was issued to the bank requiring it to show cause as to why the licence granted to it under Section 22 of the B. R. Act on December 15, 1997 to carry on banking business should not be cancelled and the bank be taken into liquidation. The bank's reply dated June 20, 2012 to the SCN was examined but was not found to be satisfactory. Further, no concrete proposal for merger/revival of the bank was received.

The bank does not comply with the provisions of Sections 11(1), 18, 22 (3) (a), 22 (3) (b) and 24 of the B. R. Act and is not in a position to pay its present and future depositors. The affairs of the bank are being conducted in a manner detrimental to the interest of depositors. The financial position of the bank leaves no scope for its revival and in all likelihood public interest will be affected if the bank is allowed to carry on its business any further. Therefore RBI took the extreme measure of cancelling the licence of the bank in the interest of bank's depositors. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Rajiv Gandhi Sahakari Bank Ltd., Latur (Maharashtra) the amount insured as per the DICGC Act, 1961 will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Rajiv Gandhi Sahakari Bank Ltd., Latur (Maharashtra) is prohibited from carrying on business of 'banking' as defined in Section 5(b) of the Banking Regulation Act, 1949 (AACS).

For any clarifications, depositors may approach Shri S. Thyagarajan, Deputy General Manager, Urban Banks Department, Reserve Bank of India, Nagpur. His contact details are as below:

Postal Address: Urban Banks Department, Reserve Bank of India, Nagpur Regional Office, Additional Office Building, East High Court Road, Nagpur- 440001; Telephone Number: (0712) 2806829; Fax Number: (0712) 2552896; Email: nagubd@rbi.org.in

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Mid-Quarter Monetary Policy Review: September 2012

September 17, 2012

Monetary and Liquidity Measures

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

- reduce the cash reserve ratio (CRR) of scheduled banks by 25 basis points from 4.75 per cent to 4.50 per cent of their net demand and time liabilities (NDTL) effective the fortnight beginning September 22, 2012. Consequently, around ` 170 billion of primary liquidity will be injected into the banking system; and
- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 per cent. Consequently, the reverse repo rate under the LAF will remain unchanged at 7.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 9.0 per cent.

Introduction

2. There have been several significant developments since the Reserve Bank's First Quarter Review of Monetary Policy in July. Globally, as risks have risen, both the European Central Bank (ECB) and the US Fed have responded with liquidity measures intended to calm financial markets and provide further stimulus to economic activity. While these measures have certainly mitigated short-term growth and financial risks, they will also exert pressure on global asset prices, and particularly, commodity prices. Domestically, growth continues to be weak amidst a negative investment climate; however, the recent reform measures undertaken by the Government have started to reverse sentiments. The Government undertook long anticipated measures towards fiscal consolidation by reducing fuel subsidies and selling stakes in public enterprises. Further, steps taken to increase foreign direct investment (FDI) should contribute to both greater capital inflows and, over the long run, higher productivity, particularly in the food supply chain. Importantly, however, for the moment, inflationary pressures, both at wholesale and retail levels, are still strong.

3. In April, the Reserve Bank implemented a frontloaded policy rate reduction of 50 basis points on the expectations of fiscal policy support for inflation management alongside supply-side initiatives for addressing the deceleration of investment and growth. As these expectations did not materialise and inflation remained firmly above 7.5 per cent, the Reserve Bank decided to pause in its policy easing in the Mid-Quarter Review (MQR) of June and in the First Quarter Review (FQR) of July. As inflationary tendencies have persisted, the primary focus of monetary policy remains the containment of inflation and anchoring of inflation expectations. In this context, the Government's recent actions have paved the way for a more favourable growth-inflation dynamic by initiating a shift in expenditure away from consumption (subsidies) and towards investment (including through FDI). Of course, several challenges remain, one of which is persistent inflation. But, as policy actions to stimulate growth materialise, monetary policy will reinforce the positive impact of these actions while maintaining its focus on inflation management. Only this will ensure that the economy derives the maximum benefit from the recent, and anticipated, fiscal and supply-side policy measures.

Global Economy

4. Global activity has been weakening in Q3 of 2012. Merchandise trade slowed considerably with absolute contractions in major economies. Global purchasing managers' indices (PMI) point to contraction in manufacturing and only modest growth in services. Persistent sovereign debt pressures amidst weakening economic activity in the euro area pose significant downside risks to the global economy. These concerns have prompted the announcement of the programme of outright monetary transactions (OMTs) in the form of sovereign bond purchases by the ECB. The US Fed announced the purchase of additional agency mortgage-backed securities until labour market conditions improve substantially, and extended exceptional policy accommodation till mid-2015.

5. Growth in several major emerging and developing economies (EDEs) is also moderating, with China's Q2 2012 growth slowing to its lowest rate in the past three years. Slowing global demand has adversely affected industrial activity and exports in these economies. Additionally, drought conditions in major grain-producing areas of the world and the possibility of further hardening of international crude prices in view of the fresh dose of quantitative easing impart ubiquitous risks to overall global macroeconomic prospects.

Domestic Economy

Growth

6. Economic activity picked up modestly in Q1 of 2012-13 in relation to the preceding quarter; but the sluggish momentum of value added in Q1 was evident across all sectors of the economy, and particularly in industry. Lead indicators point to slack activity in Q2 as well. Industrial production rose by just 0.1 per cent in July. In August, the manufacturing PMI fell to its lowest level during 2012 so far, as a result of output

disruptions due to power shortages and declining export orders. The services PMI, however, picked up in August on growth in new orders and employment. With the progressive reduction in the rainfall deficit, *kharif* sowing, though still below normal, has improved. Reassuringly, the late rains have augmented storage in reservoirs which should improve prospects for the *rabi* crop, mitigating to some extent the concerns about agricultural prospects.

Inflation

7. Headline WPI inflation (y-o-y) has remained sticky at around 7.5 per cent throughout the current financial year so far. At the disaggregated level, within primary food articles, the easing of vegetable prices in July-August was to a large extent offset by the surge in prices of cereals and pulses. Demand-supply imbalances in respect of protein-rich items persist. Fuel price inflation picked up in August, largely reflecting the upward revision in electricity prices. As welcome as the recent hike in diesel prices/rationalisation of LPG subsidy has been, the pass-through to administered prices remains incomplete. International crude prices are vulnerable to being driven up further by global liquidity. Core inflation pressures remained firm with non-food manufactured products inflation inching up from 5.1 per cent in April to 5.6 per cent in August and the momentum indicator remaining elevated. Even as demand pressures moderate, supply constraints and rupee depreciation are imparting pressures on prices, rendering them sticky.

8. In terms of the new CPI, inflation (y-o-y) remained broadly unchanged in July from June at close to 10 per cent, held up by rising prices of food items. Notwithstanding some easing in July, core CPI inflation (CPI excluding food and fuel sub-group) remains elevated.

9. While the recent upward revision in diesel prices and rationalisation of subsidy for LPG is a significant achievement, in the short-term, there will be pressures on headline inflation. Over the medium-term, however, it will strengthen macroeconomic fundamentals. It is important to note that these revisions were anticipated at the time of the April policy when a front-loaded repo rate reduction was undertaken. Over the longer run, holding down subsidies to under 2 per cent of GDP as indicated in the Union Budget for 2012-13 is crucial to manage demand-side pressures on inflation. Containing inflationary pressures and lowering inflation expectations warrant maintaining the momentum of recent policy actions to step up investment, alleviate supply constraints, and improve productivity.

Liquidity Conditions

10. Money supply (M_3), bank credit and deposits have moderated in relation to their indicative trajectories, reflecting the slowing down of economic activity. Against this backdrop, liquidity conditions have remained comfortable since the FQR. However, going forward, the wedge between deposit growth and credit growth could widen on the back of the seasonal pick-up in credit demand in the second half of the year. This, combined with outflows on account of advance tax payments and the onset of festival-related currency demand, could accentuate pressures on liquidity over the next few weeks. In these conditions, appropriate liquidity management assumes importance in order to ensure that drawals under the Liquidity Adjustment Facility (LAF) broadly remain within the indicative target of +/- 1 percent of NDTL, thereby facilitating monetary policy transmission and enabling adequate flow of credit to the productive sectors of the economy.

External sector

11. While the trade deficit narrowed in the first five months of 2012-13, the relatively large fall of exports in July-August is indicative of risks to the current account from the worsening global outlook. As regards external financing, the moderation in FDI inflows was partly compensated by a surge in non-resident deposits and a renewal of FIIs flows in recent months. Consequently, the rupee has been trading in a narrow range since the FQR. Looking ahead, a moderation in the trade deficit combined with increased inflows in response to domestic policy developments could ease pressures on the balance of payments. However, risks from global factors, in terms of both capital movements and oil prices will persist. Given these

external risks, holding down the CAD to sustainable levels will depend on durable fiscal consolidation and, in particular, switching public expenditure from subsidies to capital outlay that crowds in private investment, thus preparing the ground for a revival of growth.

Guidance

12. Since the FQR, while growth risks have increased, inflation risks remain. Mitigating the growth risks and taking the economy to a higher sustainable growth trajectory requires concerted policy action across a range of domains, a process to which last week's actions made a significant contribution. Monetary policy also has an important role in supporting the growth revival. However, in the current situation, persistent inflationary pressures alongside risks emerging from twin deficits – current account deficit and fiscal deficit – constrain a stronger response of monetary policy to growth risks. Accordingly, as this process evolves, the stance of monetary policy will be conditioned by careful and continuous monitoring of the evolving growth-inflation dynamic, management of liquidity conditions to ensure adequate flows of credit to productive sectors and appropriate responses to shocks emanating from external developments.

RBI Releases Draft Supplementary Guidance on Treatment of Illiquid Positions

September 17, 2012

The Reserve Bank of India today placed on its website, Draft Supplementary Guidance on 'Treatment of Illiquid Positions' for comments and feedback.

Comments/feedback on the draft supplementary guidance may be sent latest by October 19, 2012 by mail to the Chief General Manager-in-Charge, Reserve Bank of India, Department of Banking Operations and Development, Central Office, 12th floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 or through e-mail: skpandey@rbi.org.in

Meeting of the FSDC Sub Committee, Mumbai, September 17, 2012

September 17, 2012

A meeting of the Sub Committee of the Financial Stability and Development Council (FSDC) was held today in Mumbai. Dr. D. Subbarao, Governor, Reserve Bank of India, chaired the meeting. The meeting was attended by Dr. Arvind Mayaram, Secretary, Department of Economic Affairs (DEA); Shri D. K. Mittal, Secretary, Department of Financial Services (DFS); Shri U. K. Sinha, Chairman, Securities and Exchange Board of India (SEBI); Shri J. Harinarayan, Chairman, Insurance Regulatory and Development Authority (IRDA); Deputy Governors of RBI, Dr. K.C. Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H. R. Khan, Shri G. Gopalakrishna, Executive Director, RBI and other officials.

The Sub-Committee reviewed the recent developments in the global economy, specifically in the Eurozone and the US. The concerns on slowing growth, persistent inflationary pressures and pressures on the external sector front were discussed. The risks to stability of the domestic financial system including the developments in the banking sector were briefly reviewed.

The Sub Committee discussed issues related to rising gold imports and its impact on the current account deficit, introduction of financial instruments to increase the productive use of gold held in the economy, implications of the US Foreign Account Tax Compliance Act, use of the Business Correspondent to sell other financial products and the risks involved, regulatory gaps in the shadow banking in the country, *etc.*

RBI releases Time Series Data on Average Daily Wage Rates in Rural India for Men

September 18, 2012

The Reserve Bank of India today released time series data on monthly average daily wage rates for men in rural India. This data series is collated from the basic data collected by the Labour Bureau, Government of

India and published in its monthly publication entitled 'Indian Labour Journal'.

Coverage

The data on wage rates are published by the Labour Bureau on a regular monthly basis in its monthly publication **Indian Labour Journal**. Wage rate data is collected in respect of 11 agricultural and 7 non-agricultural occupations entailing manual work under the common framework of data collection of retail prices for Consumer Price Index (CPI) for Agricultural and Rural Labourers across 20 major states, namely, Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal. The selected occupations for which daily wage rates are collected every month are: **(a) Agricultural Occupations** – (i) ploughing, (ii) sowing, (iii) weeding, (iv) transplanting, (v) harvesting, (vi) winnowing, (vii) threshing, (viii) picking, (ix) herdsman, (x) well digging and (xi) cane crushing; **(b) Non-agricultural Occupations** – (xii) carpenter, (xiii) blacksmith, (xiv) cobbler, (xv) mason, (xvi) tractor driver, (xvii) sweeper, and (xviii) unskilled labour (un-specified).

Methodology

The average wage rates at all-India level are derived by dividing the sum total of wages of all the 20 States by the number of quotations collected by the Labour Bureau. State-wise averages are estimated only for those occupations where the number of quotations is five or more. However, for working out all-India averages, all state level quotations are taken into account to arrive at total number of quotations at all-India level. At the all-India level also, the number of quotations for working out occupation-wise averages are restricted to five or more. The missing values against various occupations indicate that no wage rate was reported during the reference month for various reasons, such as: (i) either the activity connected with the occupation was not undertaken in the State; or (ii) the activity was out of season in the State; or (iii) the particular category of workers were not engaged in that operation; or (iv) the number of quotations received is less than five.

Access

The Reserve Bank's time series data on wage rates can be accessed from the Database of Indian Economy (DBIE) link (http://dbie.rbi.org.in >> Statistics >> Real Sector >> Prices and Wages >> Monthly) on the RBI website and downloaded with classifications according to time, states and occupations. Detailed methodology for compilation of the wage rate is available in a publication entitled 'Wage Rates in Rural India 2008-09' brought out by the Labour Bureau in 2010 as also on the Labour Bureau's website: http://labourbureau.gov.in.

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The Rajasthan Urban Co-operative Bank Limited, Jaipur - Penalised

September 18, 2012

The Reserve Bank of India has imposed a monetary penalty of `1.00 lakh (Rupees One Lakh only) on the The Rajasthan Urban Co-operative Bank Limited, Jaipur, 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 violating the RBI directives/ guidelines on individual and group exposure ceiling, IRAC norms and window-dressing

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. Accordingly, it penalised the bank.

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The Rajlaxmi Mahila Urban Co-operative Bank Limited, Jaipur - Penalised

September 18, 2012

The Reserve Bank of India has imposed a monetary penalty of `1.00 lakh (Rupees One Lakh only) on the The Rajlaxmi Mahila Urban Co-operative Bank Limited, Jaipur, 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 violating the RBI directives/ guidelines on unsecured advances, IRAC norms and OBC charges.

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. Accordingly, it penalised the bank.

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The Dahod Mercantile Co-operative Bank Ltd., Dist. Dahod, Gujarat – Penalised

September 20, 2012

The Reserve Bank of India has imposed a monetary penalty of `1.00 lakh (Rupees One Lakh only) on the The Dahod Mercantile Co-operative Bank Ltd., Dist. Dahod, 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 Reserve Bank of India directives on donation.

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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The Talod Nagarik Sahakari Bank Ltd., Talod, Dist. Sabarkantha, Gujarat - Penalised

September 24, 2012

The Reserve Bank of India has imposed a monetary penalty of `5.00 lakh (Rupees five Lakh only) on the The Talod Nagarik Sahakari Bank Ltd., Talod, Dist. Sabarkantha (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 RBI instructions relating to declaration/disbursal of dividend to the shareholders in violation of operational instructions dated March 25, 2011.

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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Investment by FIIs under PIS : GSS Infotech Limited (GSS America Infotech Limited)

September 25, 2012

The Reserve Bank of India has today notified that the aggregate net purchases of equity shares in GSS Infotech Limited (GSS America Infotech Limited) by Foreign Institutional Investors (FIIs) in primary/secondary markets under Portfolio Investment Scheme (PIS) have reached the trigger limit. Therefore, further purchases of equity shares of this company would be allowed only after obtaining prior approval of the Reserve Bank of India.

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Indicative Quantum of Market Borrowings by State Governments for the Quarter October- December 2012

September 28, 2012

Reserve Bank of India, in consultation with the State Governments, announces that the indicative quantum of total market borrowings by the State Governments and the Union Territory of Puducherry, for the quarter October-December 2012, is expected to be in the range of `55,000 crore to `60,000 crore. The amount will be raised through auction of State Development Loans (SDLs) conducted generally on alternate Tuesdays. RBI would endeavour to conduct the auctions in a calibrated manner and distribute the borrowings evenly throughout the quarter. The actual amount of borrowings would be intimated by way of press release two/three days prior to the actual auction day and would depend on the requirement of the State Governments, approval from the Government of India under Article 293(3) of the Constitution of India and the market conditions.

The Bhuj Mercantile Co-operative Bank Ltd., Ahmedabad

September 28, 2012

In exercise of the powers vested under Sub-Section (1) of Section 35A of Banking Regulation Act, 1949 (AACS), directions were imposed by the Reserve Bank of India, in the interest of public, on The Bhuj Mercantile Co-operative Bank Ltd., Ahmedabad from the close of business as on April 02, 2012. The directions were modified on May 18, 2012.The period of directions imposed on the bank has since been extended for a further period of six months up to April 02, 2013 vide a directive dated September 21, 2012 in exercise of the powers vested under sub-Section (1) of Section 35A of Banking Regulation Act, 1949 (AACS), subject to review. The modified directive is displayed on the bank's premises for interested members of the public to peruse.