PRESS RELEASE

RESERVE BANK OF INDIA

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April 24, 2007

RBI Governor announces Annual Policy Statement for the year 2007-08

Dr. Y. Venugopal Reddy, Governor, in a meeting with Chief Executives of major commercial banks today presented the Annual Policy Statement for the Year 2007-08. This Statement consists of two parts: Part I. Annual Statement on Monetary Policy for the Year 2007-08; and Part II. Annual Statement on Developmental and Regulatory Policies for the Year 2007-08.

Highlights

- Greater emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports growth momentum.
- Swift response with all appropriate measures to all situations impinging on inflation expectations and the growth momentum
- Renewed focus on credit quality and orderly financial markets conditions in securing macroeconomic, in particular, financial stability.
- Bank Rate, Reverse Repo Rate and Repo Rate kept unchanged.
- Scheduled banks required to maintain CRR of 6.5 per cent with effect from the fortnight beginning April 28, 2007.
- GDP growth projection for 2007-08 at around 8.5 per cent.
- Inflation to be contained close to 5.0 per cent during 2007-08. Going forward, the resolve is to condition policy and perceptions for inflation in the range of 4.0-4.5 per cent over the medium term.
- M3 expansion to be contained at around 17.0-17.5 per cent during 2007-08.
- Deposits projected to increase by around Rs.4,90,000 crore during 2007-08.
- Adjusted non-food credit projected to increase by around 24.0-25.0 per cent during 2007-08, implying a graduated deceleration from the average of 29.8 per cent over 2004-07.
- Appropriate liquidity to be maintained to meet legitimate credit requirements, consistent with price and financial stability.

- Ceiling interest rate on FCNR (B) deposits reduced by 50 basis points to LIBOR minus 75 basis points.
- Ceiling interest rate on NR(E)RA deposits reduced by 50 basis points to LIBOR/SWAP rates.
- Average cut-off yield on 182-day Treasury Bills to be used as a benchmark rate for floating rate bonds.
- Working Group to be set up to go into all the relevant issues and suggest measures to facilitate the development of interest rate futures market.
- Overseas investment limit (total financial commitments) for Indian companies enhanced to 300 per cent of their net worth.
- Listed Indian companies limit for portfolio investment abroad in listed overseas companies enhanced to 35 per cent of net worth.
- Aggregate ceiling on overseas investment by mutual funds enhanced to US $ 4 billion.
- Prepayment of external commercial borrowings (ECBs) without prior Reseve Bank approval increased to US $ 400 million.
- Present limit for individuals for any permitted current or capital account transaction increased from US $ 50,000 to US $ 100,000 per financial year in the liberalised remittance scheme.
- A Working Group on Currency Futures to be set up to suggest a suitable framework to operationalise the proposal in line with the current legal and regulatory framework.
- Risk weight on loans up to Rs.1 lakh against gold and silver ornaments for all categories of banks reduced to 50 per cent.
- Introduction of a credit guarantee scheme for distressed farmers.
- Indian banks permitted to extend credit and non-credit facilities to step-down subsidiaries within the existing prudential limits and some additional safeguards.
- Banks and primary dealers permitted to begin transactions in single-entity credit default swaps.
- Risk weight on residential housing loans to individuals for loans up to Rs.20 lakh reduced to 50 per cent as a temporary measure.
- Existing relaxed prudential norms applicable to Tier I and Tier II urban cooperative banks extended by one year.
- Ceiling rate of interest payable by NBFCs (other than RNBCs) on deposits raised by 150 basis points.

Details

Domestic Developments

- The advance estimates of the Central Statistical Organisation (CSO) placed real GDP growth at 9.2 per cent for 2006-07, over and above 9.0 per cent in 2005-06.

- The year-on-year wholesale price index (WPI) inflation was 5.7 per cent in end-March and 6.1 per cent on April 7, 2007, after moderating from an intra-year peak of 6.7 per cent in end-January 2007, but higher than 4.1 per cent at end-March, 2006.

- The average price of the Indian basket of international crude oil increased to a peak of US $ 71.1 per barrel in July 2006, but declined to US $ 53.0 per barrel in January 2007 before increasing to US $ 64.0 per barrel as on April 20, 2007.

- Money Supply (M_3) growth, on a year-on-year basis, increased by 20.8 per cent (Rs.5,67,372 crore) in 2006-07 as compared with 17.0 per cent (Rs.3,96,881 crore) in 2005-06.

- Reserve money increased by 23.7 per cent (Rs.1,35,892 crore) during 2006-07, higher than the increase of 17.2 per cent (Rs.83,922 crore) in the previous year.

- Aggregate deposits of scheduled commercial banks (SCBs) increased by 23.0 per cent (Rs.4,85,210 crore) during 2006-07 as against 18.1 per cent (Rs.3,23,913 crore) in 2005-06.

- Non-food credit extended by SCBs increased by 28.0 per cent (Rs.4,10,285 crore) on top of 31.8 per cent (Rs.3,54,193 crore) in the previous year, exhibiting some moderation from the sustained growth during 2003-06.

- Incremental non-food credit-deposit ratio edged down to 84.6 per cent during 2006-07 from 109.3 per cent in the previous year.

- During 2006-07, financial markets shifted from conditions of easy liquidity to occasional spells of tightness necessitating injection of liquidity through the LAF. The build-up of cash balances of the Government and shortage of collateral as a consequence of steady draw-down of excess SLR holdings exacerbated the tightening of liquidity.

- The total overhang of liquidity under the LAF, the Market Stabilisation Scheme (MSS) and surplus cash balances of the Central Government taken together increased from an average of Rs.74,334 crore in March 2006 to Rs.97,449 crore in March 2007.

- Financial markets experienced generally stable conditions during the greater part of 2006-07, *albeit* with some volatility in the second half amidst heightened activity as volumes increased steadily and interest rates firmed up in all segments, particularly in the uncollateralised call/notice money market during the last quarter of the year.

- Scheduled commercial banks' appetite for Government paper revived during 2006-07 as their investment in Government and other approved securities increased by Rs.74,706 crore in contrast to a decline of Rs.22,809 crore in 2005-06.

- Commercial banks' holdings of Government and other approved securities declined from 31.4 per cent of the banking system's net demand and time liabilities (NDTL) in March 2006 to 28.0 per cent in March 2007.

- Interest rates on deposits of over one year maturity of public sector banks (PSBs) moved up from 5.75-7.25 per cent in April 2006 to 7.25-9.50 per cent in March 2007.

- The benchmark prime lending rates (BPLRs) of PSBs and private sector banks increased from 10.25-11.25 per cent and 11.00-14.00 per cent to a range of 12.25-12.75 per cent and 12.00-16.50 per cent, respectively, during the same period.

- The BSE Sensex declined from 11,280 at end-March 2006 to a intra-year trough of 8,929 on June 14, 2006 but thereafter rallied to the peak of 14,652 on February 8, 2007 but subsequently moderated to 13,072 by end-March 2007.

- During 2006-07, the Central Government's net market borrowing at Rs.1,11,275 crore was 97.7 per cent of the budgeted amount and gross market borrowing of Rs.1,79,373 crore was 98.6 per cent of the budgeted amount.

- The weighted average yield on primary issuance of the Central Government's dated securities rose by 55 basis points to 7.89 per cent in 2006-07 from 7.34 per cent in the previous year.

- The Reserve Bank of India (Amendment) Act, 2006 gives discretion to the Reserve Bank to decide the percentage of scheduled banks' demand and time liabilities to be maintained as CRR without any ceiling or floor. Consequent to the amendment, no interest will be paid on CRR balances so as to enhance the efficacy of the CRR, as payment of interest attenuates its effectiveness as an instrument of monetary policy. The revised definition of "repo" and "reverse repo" provided under the amendment would facilitate transactions of market participants/banks in these instruments. The amendment also provides the Reserve Bank with the statutory backing for regulating the money market and also for regulating trading ofover-the-counter derivatives.

- The Reserve Bank of India reconstituted the TAC in January 2007 with a view to obtaining continued benefit of expert opinion from the external experts with a tenure up to January 31, 2009. The reconstituted TAC has five external members and two members of the Central Board of the Reserve Bank. The Committee is chaired by the Governor, with the Deputy Governor in charge of monetary policy as vice-chairman and other Deputy Governors as members.

External Developments

- In US dollar terms, merchandise exports increased by 19.3 per cent during 2006-07 (April-February) as compared with 26.3 per cent in the corresponding period of the previous year. Imports showed an increase of 27.8 per cent as compared with 32.7 per cent in the corresponding period of the previous year.

- While the increase in oil imports was lower at 32.6 per cent during 2006-07 (April-February) as compared with 49.7 per cent in the corresponding period of the previous year, non-oil import growth at 25.7 per cent was comparable to 26.4 per cent for the same period.

- India's foreign exchange reserves, including valuation changes, recorded an increase of US $ 25.6 billion during April-December 2006 and rose to reach a level of US $ 199.2 billion by end-March 2007.

- The Indian foreign exchange market witnessed generally orderly conditions during 2006-07 with the exchange rate exhibiting two-way movements. The rupee appreciated by 2.3 per cent against the US dollar and 2.7 per cent against the Japanese yen, but depreciated by 6.8 per cent against the euro and by 9.0 per cent against the pound sterling during 2006-07.

Global Developments

- The world economy expanded strongly in 2006 and achieved a four-year run of sustained growth that began in 2003.

- According to the World Economic Outlook of the International Monetary Fund, global real GDP growth, on a purchasing power parity basis, is expected to decelerate from 5.4 per cent in 2006 to 4.9 per cent in 2007 and 2008.

- International foodgrains prices, in particular, wheat and maize, scaled record levels in 2006 as global cereal output fell by 2.7 per cent from the previous year.

- Globally, headline inflation has picked up in the wake of increase in commodity prices, and core inflation has also generally remained firm, which is likely to pose risks to inflation expectations as international crude prices have started rising again.

- Globally, financial risks have increased notably emanating from the behaviour of oil prices, adverse developments in the US housing market, persistence of global imbalances, large leveraged positions in financial markets, and possible emergence of inflationary pressures.

- Monetary policy authorities the world over are vigilant about threats to inflation expectations and are watchful about the emergence of excessive volatility in asset prices, underpricing of risks and disorderly conditions in currency markets.

- Some central banks have recently paused in their policy cycles *viz*., the US; the Bank of Canada; Bank Negara Malaysia; and the Banco de Mexico. Some other central banks have cut back their policy rates in recent months, usually on the back of earlier strong actions to contain inflation. These include Bank Indonesia

(BI); the Banco Central doBrasil; the Banco Central de Chile and the Bank of Thailand. The central banks that have tightened their policy rates include the ECB; the Bank of England, the Bank of Japan; the Reserve Bank of Australia; the Reserve Bank of New Zealand; the People's Bank of China; and the Bank of Korea.

Overall Assessment

- While there is evidence of structural changes underlying the recent Indian growth experience, there are also indications that the upsurge of demand pressures may contain a cyclical component. The structural changes include a step up in the investment rate supported by a sizeable increase in the rate of gross domestic saving, the growing linkages of the Indian economy with the global economy and the indications of improvements in productivity in industry and services.

- Among the cyclical factors, first, robust global GDP growth has been supportive of high growth in India. Second, the persistence of high growth in bank credit and money supply, the pick-up in non-oil import growth and the widening of the trade deficit together indicate pressures on aggregate demand. Third, cyclical forces are also evident in the steady increase in prices of manufactures, resurgence of pricing power among corporates, indications of wage pressures in some sectors, strained capacity utilisation and elevated asset prices.

- A significant worrisome feature of domestic developments in 2006-07 is the firming up of inflation, which represents the key downside risk to the evolving macroeconomic outlook. The recent hardening of international crude prices has heightened the uncertainty surrounding the inflation outlook.

- A careful assessment of the manner in which inflation is evolving in India reveals that primary food articles have contributed significantly to inflation during 2006-07. At the same time, prices of manufactured products account for well above 50 per cent of headline inflation.

- Indian financial markets have experienced some volatility in the fourth quarter of 2006-07 alongside sizeable swings in liquidity and a hardening of interest rates across the spectrum. During episodes of tightness, contrasting conditions were often observed when short-term interest rates had firmed up but long-term rates had declined in the Government securities market.

- While capital flows to emerging market economies and, in particular, to Asia in 2006 have reflected the improvement in macroeconomic performance, they were also driven by a search for yields and a stronger appetite for risk. Consequently, reversals of capital flows can pose challenges to emerging economies, particularly in the context of withdrawal of monetary accommodation in developed economies.

- In the event of demand pressures building up, increases in interest rates may be advocated to preserve and sustain growth in a non-inflationary manner. Such monetary policy responses, however, increase the possibility of further capital inflows, apart from the associated costs for growth and potential risks to financial stability. Thus, foreign exchange inflows can potentially reduce the efficacy of monetary policy tightening by expanding liquidity.

Stance of Monetary Policy for 2007-08

- Real GDP growth in 2007-08 may be placed at around 8.5 per cent, assuming no further escalation in international crude prices and barring domestic or external shocks.

- In view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming the absence of domestic and external shocks, the policy endeavour would be to contain inflation close to 5.0 per cent in 2007-08.

- Given the monetary overhang of 2005-07, it is important to contain M_3 in 2007-08 at around 17.0-17.5 per cent in consonance with the outlook on growth and inflation.

- Consistent with the projections of money supply growth, the growth in aggregate deposits in 2007-08 is placed at around Rs.4,90,000 crore.

- Based on an overall assessment of the sources of funding, adjusted non-food credit is projected to increase in the range of 24.0-25.0 per cent in 2007-08, a graduated deceleration from the average of 29.8 per cent over 2004-07.

- The stance of monetary policy in 2007-08 would be conditioned by the global and, more particularly, domestic developments. Monetary policy, while contributing to growth, is strongly in favour of reinforcing the emphasis on price stability and anchoring inflation expectations for the period ahead.

- The Reserve Bank will ensure that appropriate liquidity is maintained in the system so that all legitimate requirements of credit are met, particularly for productive purposes, consistent with the objective of price and financial stability. Towards this end, the Reserve Bank will continue with its policy of active demand management of liquidity through open market operations (OMO) including the MSS, LAF and CRR, and using all the policy instruments at its disposal flexibly, as and when the situation warrants.

- Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the current assessment of the economy including the outlook for inflation, the overall stance of monetary policy in the period ahead will continue to be :

    - to reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.

    - to re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.

    - to respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations and the growth momentum.

Monetary Measures

- Bank Rate kept unchanged at 6.0 per cent.
- Reverse Repo Rate and Repo Rate kept unchanged at 6.00 per cent and 7.75 per cent, respectively.
- The Reserve Bank retains the option to conduct overnight repo or longer term repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.
- Cash reserve ratio (CRR) of scheduled banks at 6.5 per cent with effect from the fortnight beginning April 28, 2007, as announced on March 30, 2007.

Developmental and Regulatory Policies

Interest Rate Prescriptions

- The interest rate ceiling on FCNR (B) deposits reduced by 50 basis points to LIBOR minus 75 basis points with immediate effect.
- The interest rate ceiling on NR(E)RA deposits reduced by 50 basis points to LIBOR/SWAP rates with immediate effect.

Financial Markets

- A ‘Non-Competitive Bidding Scheme’ in the auctions of State Development Loans (SDLs) to be introduced in the financial year 2007-08.
- The base rate for new floating rate bonds (FRBs) is proposed to be the average implicit cut-off yield emerging in the last three auctions of 182-day Treasury Bills held before the coupon reset date.
- The reporting platforms for corporate bonds have already been established by stock exchanges as per the Securities and Exchange Board of India (SEBI) guidelines. The Fixed Income Money Market and Derivatives Association (FIMMDA) is also in the process of setting up a reporting platform for over-the-counter (OTC) trades in corporate bonds and providing a consolidated ticker service for reporting all trades in corporate bonds. Widening of the repo market to include corporate bonds will be considered after the proposed trading platforms stabilise and robust clearing and settlement systems (Delivery *versus* Payment system) are established.
- The CCIL is being advised to start a trade reporting platform for Rupee Interest Rate Swaps (IRS).

- A Working Group is being set up to go into all the relevant issues relating to interest rate derivatives and to suggest measures to facilitate the development of interest rate futures market.

- The overseas investment limit (total financial commitments) for Indian companies investments in joint ventures (JVs)/ wholly owned subsidiaries (WOS) abroad to be enhanced from the existing 200 per cent of net worth to 300 per cent of net worth, as per the last audited balance sheet.

- It has been decided to introduce a revised reporting framework on overseas investments for monitoring capital flows.

- The limit for portfolio investment abroad in listed overseas companies by listed Indian companies enhanced from 25 per cent of net worth to 35 per cent of net worth.

- The aggregate ceiling on overseas investment by mutual funds to be increased from US $ 3 billion to US $ 4 billion.

- Prepayment of external commercial borrowings (ECBs) up to US $ 400 million to be allowed as against the existing limit of US $ 300 million by authorised dealer banks without prior approval of the Reserve Bank, subject to compliance with stipulated minimum average maturity period as applicable to loans.

- The present remittance limit of US $ 50,000 to be enhanced to US $ 100,000 per financial year for any permitted current or capital account transaction or a combination of both by individuals.

- The range of hedging tools available to the market participants to be expanded.

- Authorised dealer Category-I banks to be allowed to permit domestic producers/users to hedge their price risk on aluminium, copper, lead, nickel and zinc in international commodity exchanges, based on their underlying economic exposures and to permit actual users of aviation turbine fuel (ATF) to hedge their economic exposures in the international commodity exchanges based on their domestic purchases.

- At present, forward contracts booked by importers and exporters of goods and services in excess of 50 per cent of the eligible limits have to be on deliverable basis and cannot be cancelled. This limit is to be enhanced to 75 per cent.

- The forward contracts entered by residents for hedging overseas direct investments to be allowed to be cancelled and rebooked.

- Small and medium enterprises (SMEs) to be permitted to book forward contracts without underlying exposures or past records of exports and imports through authorised dealers with whom the SMEs have credit facilities. The SMEs are also to be permitted to freely cancel and rebook the contracts.

- Resident individuals to be permitted to book forward contracts without production of underlying documents up to an annual limit of US $ 100,000 which can be freely cancelled and rebooked.

- A Working Group to be set up on Currency Futures to study the international experience and suggest a suitable framework to operationalise the proposal, in line with the current legal and regulatory framework.

- In respect of resident corporates, authorised dealers be allowed to:

  - Permit remittances on account of donations by corporates for specified purposes, subject to a limit of 1 per cent of their foreign exchange earnings during the previous three financial years or US $ 5 million, whichever is lower.

  - Permit Indian companies to remit up to US $ 10 million as against the current limit of US $ 1 million for consultancy services for executing infrastructure projects.

  - Allow remittance of foreign exchange towards reimbursement of pre-incorporation expenses incurred in India where the remittance does not exceed 5 per cent of the investment brought into India or US $ 100,000 whichever is higher, on the basis of certification from statutory auditors.

  - Permit remittances on account of cash calls for the purpose of oil exploration, provided the operator/ consortium member in India submits documents to the satisfaction of the authorised dealer.

  - Allow remittances on account of requests from Business Process Outsourcing (BPO) companies towards payment of the cost of equipment to be installed at overseas sites in connection with setting up of International Call Centres, subject to specified terms and conditions.

  - Open foreign currency accounts in India for ship manning/ crew managing agencies that are rendering services to shipping companies incorporated outside India.

  - Remit winding up proceeds of companies under liquidation, subject to orders issued by the official liquidator or a court in India or under any scheme framed by the Government of India and also subject to tax compliance.

- A uniform period of 6 months for surrender of received/ unspent/ unused foreign exchange from the date of receipt/ purchase/ acquisition/ date of return of the resident individual traveller.

- Authorised dealers to be allowed to open escrow/ special accounts on behalf of non-residents corporates, subject to specific conditions where such accounts are required to be opened in terms of the SEBI regulations for open offers/delisting offers/exit offers and the like.

- The facility of operation of accounts by power of attorney holder is to be extended to NRO account holders.

- At the request of the depositor, authorised dealers to be allowed to permit remittance of the maturity proceeds of FCNR (B) deposits to third parties outside India, provided the authorised dealer is satisfied about the *bonafides* of the transaction.

Credit Delivery Mechanisms and Other Banking Services

- Revised guidelines on lending to the priority sector by all SCBs are being issued shortly.

- The requirement of "no due" certificate to be dispensed with for small loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and instead, obtain self-declaration from the borrower.

- Proposed to accept certificates provided by local administration/ *panchayati raj* institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees.

- The risk weight on loans up to Rs.1 lakh against gold and silver ornaments to be reduced to 50 per cent from the existing level of 125 per cent.

- RRBs to be allowed to take up corporate agency business, without risk participation, for distribution of all insurance products, including health insurance and animal insurance.

- A credit guarantee scheme for distressed farmers to be introduced.

- Proposed to undertake an evaluation of the progress made in the districts achieved 100 per cent financial inclusion by an independent external agency to draw lessons for further action in this regard.

- A Working Group to be constituted for the Union Territory (UT) of Lakshadweep to recommend measures for enhancing the outreach of banking services in the UT.

- State Level Bankers' Committee convenor banks to be advised to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district, and based on the experience gained, to ask the concerned lead banks to set up such centres in other districts.

- Banks are urged to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

- An evaluation of the bank – self help group (SHG) linkage programme to be conducted through the regional offices of the Reserve Bank with a view to ascertaining the degree of transparency in maintaining the accounts by the SHGs and their adherence to well-accepted best practices.

- The boards of banks are advised to lay down internal principles and procedures so that usurious interest, processing and other charges are not charged.

- Proposed to extend the appeal option under the Banking Ombudsman (BO) Scheme, 2006 to decisions of the BO rejecting complaints relating to matters falling within the grounds of complaint specified under the Scheme.

- The Reserve Bank of India Note (Refund) Rules (as amended up to 1980) to be modified in order to make it easier for the public to obtain the refund value in respect of mutilated notes.

Prudential Measures

- Indian banks to be permitted to extend credit and non-credit facilities to step-down subsidiaries which are wholly owned by the overseas subsidiaries of the Indian corporates, within the existing prudential limits and some additional safeguards.

- Introduction of credit derivatives in a calibrated manner. To begin with, banks and primary dealers to be permitted to begin transacting in single-entity credit default swaps (CDS).

- Disclosure of segment reporting under Accounting Standard 17 enhanced to include more categories of corporate/ wholesale banking, retail banking and other banking business.

- The risk weight on the residential housing loans to individuals to be reduced from the existing 75 per cent to 50 per cent as a temporary measure. This dispensation will be applicable for loans up to Rs.20 lakh and will be reviewed after one year, keeping in view the default experience and other relevant factors.

Institutional Developments

- The Indian Financial Network (INFINET) system to be operationalised as a Multi-Protocol Label Switching (MPLS) network by the Institute for Development and Research in Banking Technology (IDRBT).

- Centralised Public Accounts Department (CPAD) System to improve management of Central and State Governments' accounting transactions to be extended to cover all the Reserve Bank offices during the year 2007-08.

- Processing fees waived for transactions relating to RTGS, ECS, EFT and NEFT up to March 31, 2008.

- Proposed to prepare comprehensive draft guidelines on minimum eligibility criteria to become direct members of the clearing houses and to place these guidelines on the Reserve Bank's website for comments/feedback by May 31, 2007. The eligibility criteria will also cover membership in RTGS, NEFT, ECS and INFINET connectivity.

- Annual review of payment and settlement systems to be introduced with effect from the year ending March 31, 2007.

- Granting of branch licenses to be considered to well-managed and financially sound Urban Co-operative banks (UCBs) in States that have signed Memoranda of Understanding (MoUs), subject to fulfillment of certain parameters.

- Guidelines to UCBs on the various options for raising capital to be issued by May 31, 2007.

- The existing relaxed prudential norms applicable to Tier I and Tier II UCBs to be extended by one year.

- All UCBs in Grade I and II with a net worth of Rs.10 crore and registered in a State that has signed the MoU with the Reserve Bank or under the Multi-State Co-operative Societies Act to be allowed to undertake insurance business as corporate agents, without risk participation.

- For claims payable by DICGC to depositors, it is proposed to treat Joint deposits held in the names of ‘A & B’ and ‘B & A’ to be two separate accounts eligible for maximum claim of Rs.1 lakh each.

- The ceiling on the rate of interest payable by NBFCs (other than RNBCs) on deposits to be increased by 150 basis points to 12.5 per cent per annum and such interest would be paid or compounded at rests which should not be shorter than monthly rests.

- The Government and the Reserve Bank of India constituted a Committee on Financial Sector Assessment to undertake a comprehensive self-assessment of the Indian financial sector using the Handbook brought out by the World Bank and the IMF as the base. The Committee is expected to lay out a road-map for further reforms in a medium-term perspective.

- An Internal Working Group to be constituted to examine the report of the High-Powered Expert Committee (HPEC) on Making Mumbai an International Financial Centre and implement the recommendations as appropriate.

G. Raghuraj
Deputy General Manager

Press Release : 2006-2007/1454