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RBI Governor announces Mid-term Review of Annual Policy for 2008-09

Dr. D. Subbarao, Governor, presented the Mid-term Review of Annual Policy for the Year 2008-09 today in a meeting with Chief Executives of major commercial banks. The Mid-term Review consists of two parts: Part A. Mid-term Review of the Annual Statement on Monetary Policy for the Year 2008-09; and Part B. Mid-term Review of the Annual Statement on Developmental and Regulatory Policies for the Year 2008-09.

Highlights

- Bank Rate, Repo Rate and Reverse Repo Rate kept unchanged.
- The flexibility to conduct overnight repo or longer term repo including the right to accept or reject tender(s) under the LAF, wholly or partially, is retained.
- CRR kept unchanged at 6.5 per cent.
- GDP growth forecast for 2008-09 revised to a range of 7.5-8.0 per cent.
- Keeping in view the supply management measures taken by the Government and the lagged demand response to the monetary policy measures taken by the Reserve Bank, it has been decided to maintain the earlier projection of inflation of 7.0 per cent by end-March 2009 for policy purposes.
- It will be the Reserve Bank's endeavour to bring down inflation to a tolerable level of below 5 per cent at the earliest, while aiming for convergence with the global average inflation of around 3.0 per cent over the medium-term.
- It is necessary to moderate the rate of money supply to 17 per cent in 2008-09.

• Based on the above overall assessment of the macroeconomic situation, the stance of monetary policy for the rest of 2008-09 will be as follows:

- Ensure a monetary and interest rate environment that optimally balances the objectives of financial stability, price stability and well-anchored inflation expectations, and growth;
- Continue with the policy of active demand management of liquidity through appropriate use of all instruments including the CRR, open market operations (OMO), the MSS and the LAF to maintain orderly conditions in financial markets;
- In the context of the uncertain and unsettled global situation and its indirect impact on the domestic economy in general and the financial markets in particular, closely and continuously monitor the situation and respond swiftly and effectively to developments, employing both conventional and unconventional measures;
- Emphasise credit quality and credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

Government Securities Market

- Floating rate bonds (FRBs) to be issued at an appropriate time taking into account the prevailing market conditions.
- Government of India 7 per cent Savings Bonds, 2002, the 6.5 per cent Savings Bonds, 2003 (non-taxable), and the 8 per cent Savings Bonds, 2003 (taxable) schemes allowed for pledge or hypothecation or *lien* of these bonds as collateral for obtaining loans from scheduled banks.
- The scheme for Non-Competitive Bidding Facility of State Development Loans (SDLs) to be operationalised by end-December 2008.

Development of Market Infrastructure

- Interest rate futures (IRFs) contracts as recommended by the Working Group on Interest Rate Futures to be launched in early 2009 along with the supporting changes in the regulatory regime.
- Access to NDS-OM through the Constituent SGL (CSGL) route further extended to investors such as other non-deposit taking NBFCs, corporates and FIIs.
- Arrangements for settlement of primary auction bidding under the multi-modal settlement mechanism on the anvil.
- CCIL to operationalise a clearing and settlement arrangement for OTC rupee interest rate derivatives on a non-guaranteed basis within a month, and on a guaranteed basis within three months.

Foreign Exchange Market

- The external commercial borrowings (ECBs) policy modified - ECBs up to US \$ 500 million per borrower per financial year permitted for rupee expenditure and/or foreign currency expenditure for permissible end-uses under the automatic route; payment for obtaining license/permit for 3G Spectrum allowed to be considered an eligible end-use for the purpose of ECBs; ECBs borrowers permitted to either keep proceeds off-shore or to remit to India for credit to their rupee accounts with AD Category-I banks in India, pending utilisation for permissible end-uses.
- All-in-cost ceilings for ECBs for average maturity period of three years and up to five years enhanced to 300 basis points and over five years enhanced to 500 basis points above LIBOR.

- The exchange traded currency futures started trading on the National Stock Exchange (August 29, 2008), the Bombay Stock Exchange (October 1, 2008) and the Multi Commodity Exchange – Stock Exchange (October 7, 2008).
- CCIL to operationalise settlement system of the foreign exchange forward segment within a month.
- Domestic oil and shipping companies permitted to hedge their freight risk with overseas exchanges/ OTC markets.

Credit Delivery Mechanism and Other Banking Services

- Consequent upon announcements made in the Union Budgets for the years 2007-08 and 2008-09, public sector banks, RRBs and rural co-operative banks advised to grant interest rate subvention of 2 per cent per annum to farmers in respect of short-term production credit up to Rupees three lakh.
- Reserve Bank to provide a sum of Rs.25,000 crore as the first instalment under the Agricultural Debt waiver and Debt Relief Scheme 2008 as temporary liquidity support under Section 17(3-B) and Section 17(4-E) of the RBI Act to scheduled banks and the NABARD, respectively, till November 3, 2008.
- All-in-cost ceiling for trade credit less than 3 years enhanced to 6 months LIBOR plus 200 basis points.
- Detailed guidelines to banks on rehabilitation of potentially viable sick SME units to be issued by end-November 2008.
- RRBs to be allowed greater flexibility in opening new branches as long as they are making operational profits and their financials are improving.
- Feedback to be given to banks to make the process of financial inclusion more effective.
- Recommendations of the Special Task Force to give a fresh impetus for setting up of banking facilities at additional centres in the North-Eastern region are under implementation.
- A Model Scheme for Financial Literacy and Credit Counselling Centres to be notified.
- Report of High Level Committee constituted to review the Lead Bank Scheme and improve its effectiveness to be submitted by December 2008.
- Study on Courier/Postage charges levied by banks for collection of outstation cheques and for sending statements/cheque books to customers to be placed on Reserve Bank's website.

Institutional Developments

- The Payment and Settlement Systems Act, 2007 and the Payment and Settlement Systems Regulations, 2008 notified and have come into effect from August 12, 2008.
- Operating guidelines for mobile payments issued for adoption by banks under Section 18 of the Payment and Settlement Systems Act, 2007 with effect from October 8, 2008.
- Existing exemption to Non-scheduled UCBs in Tier I regarding maintaining SLR not to exceed 7.5 per cent of NDTL with effect from October 1, 2009 and the exemption to be withdrawn effective from April 1, 2010.

- Non-scheduled UCBs in Tier I to maintain SLR in the form of Government and other approved securities not less than 7.5 per cent of their NDTL by September 30, 2009 and 15 per cent of their NDTL by March 31, 2010.
- Current prescription of holding SLR in Government and other approved securities not less than 15 per cent of their NDTL in respect of non-scheduled UCBs in Tier-II to continue up to March 31, 2010.
- From March 31, 2011 onwards all UCBs (non-scheduled and scheduled) to maintain SLR in Government and other approved securities up to 25 per cent of their NDTL.
- Advisory Panel Reports and the overview report of the Committee on Financial Sector Assessment (CFSA) to be released by December 2008.

Details

Domestic Developments

- Real GDP growth during the first quarter of 2008-09 is placed at 7.9 per cent as against 9.2 per cent a year ago.
- Inflation, measured by variations in the wholesale price index (WPI) on a year-on-year basis, increased to 11.4 per cent as on October 4, 2008 from 7.8 per cent as at end-March 2008 and 3.2 per cent a year ago.
- The daily average price of the Indian basket of crude oil increased from US \$ 99.4 per barrel in March 2008 to US \$ 129.8 in June 2008 and further to a peak of US \$ 141.5 on July 3, 2008 before declining to US \$ 96.8 in September 2008 and to US \$ 74.4 in October so far up to October 22, 2008.
- Inflation, based on the consumer price index (CPI) for industrial workers, showed a sharp increase to 9.0 per cent on a year-on-year basis in August 2008 from 7.3 per cent a year ago.
- Money supply (M₃) growth increased by 20.3 per cent on a year-on-year basis up to October 10, 2008, lower than 21.9 per cent a year ago but above the indicative projection of 17.0 per cent set out in the Annual Policy Statement of April 2008.
- Aggregate deposits of scheduled commercial banks (SCBs) increased by 21.6 per cent (Rs.6,15,263 crore) on a year-on-year basis up to October 10, 2008 as compared with 24.7 per cent (Rs.5,65,124 crore) a year ago.
- Credit extended by SCBs increased by 29.4 per cent (Rs.5,91,935 crore) on a year-on-year basis up to October 10, 2008 as compared with an increase of 23.1 per cent (Rs.3,77,628 crore) a year ago.

- The year-on-year growth in total resource flow from SCBs to the commercial sector was 28.9 per cent up to October 10, 2008 over and above the growth of 21.9 per cent a year ago.
- Inclusive of LAF collateral securities on an outstanding basis, SCBs holdings of SLR securities amounted to Rs.10,72,416 crore or 28.2 per cent of net demand and time liabilities (NDTL) on October 10, 2008 implying an excess of Rs.1,20,870 crore or 3.2 per cent of NDTL over the prescribed SLR of 25 per cent of NDTL.
- The total overhang of liquidity as reflected in the balances under the LAF, the MSS and the Central Government's cash balances taken together declined from a daily average of Rs.1,93,726 crore in June 2008 to Rs.1,53,863 crore in September 2008 and further to Rs.1,22,182 crore on October 5, 2008. The total overhang of liquidity increased to Rs.2,17,415 crore on October 20, 2008.
- Gross market borrowings of the Central Government through dated securities at Rs.1,06,000 crore (Rs.1,07,000 crore a year ago) during 2008-09 so far (up to October 22, 2008) constituted 60.3 per cent of the BE. Net market borrowings at Rs.61,972 crore (Rs.74,875 crore a year ago) constituted 67.6 per cent of the BE.
- An amount of Rs.38,500 crore has been mobilised by the Central Government through issuance of additional treasury bills to finance the expenditure on the farmers' debt waiver scheme during the current year up to October 17, 2008.
- Financial markets reflected the changes in liquidity conditions during the second quarter of 2008-09. The inter-bank money market has been working well throughout the period.
- During April-October 22, 2008 SCBs increased their deposit rates for various maturities by 50-175 basis points.
- On the lending side, the benchmark prime lending rates (BPLRs) of PSBs increased by 125-150 basis points in April-October to a range of 13.75-14.75 per cent by October 22, 2008.
- The private sector banks and foreign banks also increased their BPLR from the range of 13.00-16.50 per cent and 10.00-15.50 per cent to the range of 13.75-17.75 per cent and to 10.00-17.00 per cent, respectively, during the same period.
- Equity markets experienced a downturn in both the primary and secondary segments during the current financial year so far. In the secondary market, the BSE Sensex (1978-79=100) was volatile with large two-way movements in response largely to movements in global equity markets.

External Sector

- Exports increased by 35.3 per cent in US dollar terms during April-August 2008 as compared with 19.3 per cent in the corresponding period of the previous year. Imports rose by 38.0 per cent as compared with 34.2 per cent in the corresponding period of the previous year.
- While non-POL imports decelerated to 28.3 per cent from 42.7 per cent a year ago, the surge in international crude oil prices resulted in POL imports increasing by 60.0 per cent as compared with 17.9 per cent in the corresponding period of the previous year.
- The foreign exchange reserves declined by US \$ 35.8 billion during the current financial year so far and stood at US \$ 273.9 billion on October 17, 2008.
- During the current financial year so far, the rupee depreciated by 18.9 per cent against the US dollar, by 0.4 per cent against the euro, by 1.1 per cent against the pound sterling and by 19.1 per cent against the Japanese yen.

Global Developments

- During the first nine months of 2008, the slowdown in global growth spread across developed economies in an environment of heightened uncertainty.
- Global economic prospects have been dampened by the weakening of the US economy, the wider repercussions of the ongoing financial market crisis and volatility in the energy, food and commodity prices.
- According to the World Economic Outlook (WEO) of the IMF released in October 2008, global real GDP growth on a purchasing power parity basis is expected to decelerate from 5.0 per cent in 2007 to 3.9 per cent in 2008 (4.1 per cent in WEO Update, July 2008) and further to 3.0 per cent in 2009 (3.9 per cent in WEO Update, July 2008).
- In the US, real GDP growth slowed to 2.8 per cent in the second quarter of 2008 from 3.8 per cent a year ago. . The October 2008 WEO of the IMF expects the US economy to slow from 2.0 per cent in 2007 to 1.6 per cent in 2008 and further to 0.1 per cent in 2009.
- Globally, inflation has softened in several countries in recent months. There has been an overall decrease in prices of food, crude oil and metals since July 2008 which is contributing to the easing in consumer price inflation across the globe.

- Strains in global financial markets have increased significantly in the third quarter of 2008. Equity markets have weakened significantly as valuations reflected disappointing earnings data in the financial and other cyclical sectors. Pressures in inter-bank money markets, which had persisted since May 2008, began to intensify further during the third quarter of 2008.

- For the resolution of various issues thrown up by the financial turmoil, the US Treasury and the Federal Reserve have adopted a multi-pronged approach of introducing and enhancing the effectiveness of liquidity facilities, allowing financial support, mergers, conversions and outright bankruptcies, affecting large investment and savings banks, and even a major insurance firm.

- To ameliorate the strains in the money market consequent on these developments, in addition to the Term Auction Facility (TAF), Primary Dealer Credit Facility (PDCF) and Term Securities Lending Facility (TSLF) instituted earlier and enhanced subsequently, the Federal Reserve announced several initiatives to provide additional support to financial markets.

- Contagion from the faltering US markets prompted co-ordinated emergency liquidity actions by major central banks on September 18, 2008 and the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, the Bank of Japan and the Swiss National Bank announced co-ordinated measures designed to address the continued elevated pressures in US dollar short-term funding markets.

- On September 25, 2008 money markets ground to a virtual halt and interbank and repo rates rose to almost record highs. This prompted the US Treasury to announce a plan for a federal fund of US \$ 700 billion to clear the bad debt overhang by (i) buying unviable paper to restore liquidity in markets; (ii) allowing orderly restructuring over time without distress sales; (iii) lessening foreclosures; and (iv) helping the Federal Deposit Insurance Corporation (FDIC) in assisting troubled institutions, which was authorised by Congress in early October under the Emergency Economic Stabilization Act.

- On October 14, 2008 the Board of Governors of the Federal Reserve System, the US Department of the Treasury and the FDIC made a joint statement to protect the US economy, to strengthen public confidence in the financial institutions and to foster the robust functioning of the credit markets through a voluntary capital purchase programme and a temporary FDIC guarantee programme for a broad array of financial institutions.

- A wave of banking contagion in Benelux, Germany, UK, Spain, Ireland and Iceland required government intervention late September onwards and some banks were taken into temporary state ownership.

- Central banks have engaged in continuous close consultation and have co-operated in unprecedented joint actions. In addition to the US dollar swap lines, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, the Sveriges Riksbank and the Swiss National Bank reduced their policy rates by 50 basis points on October 8, 2008. Also, the Bank of Japan expressed its strong support of these policy actions.

- In order to provide broad access to liquidity and funding to financial institutions, on October 13, 2008 the BoE, the ECB, Federal Reserve, the Bank of Japan and the SNB jointly announced measures to improve liquidity in short-term US dollar funding markets.
- Emerging market central banks have also responded in various ways to the events unfolding in the advanced economies. Monetary policy actions such as reducing required reserves and interest rates to boost liquidity have also been undertaken by some EMEs to stem the financial crisis.
- Several central banks in Asia have cut their policy rates in tandem with the advanced economies and have provided assurances of liquidity support to financial markets.
- Central banks of some countries such as Japan and Malaysia have not changed their policy rates in 2008.
- Some central banks that have tightened their policy rates in recent months include Bank Indonesia; Bank of Thailand; the Banco Central de Chile, Banco Central do Brasil; and Banco de Mexico.

Overall Assessment

- Aggregate supply conditions in the Indian economy have shown resilience in the second quarter of 2008-09 in the face of a deteriorating global macroeconomic and financial environment. There are, however, growing indications that the underlying economic cycle is turning in tune with global economic developments and that domestic economic activity is straddling a point of inflexion.
- Aggregate demand conditions continue to be mainly investment-driven, although some slackening which set in during the first quarter of 2008-09 appears to have become broad based.
- Reflecting the aggregate demand pressures, key monetary and banking aggregates – money supply, deposit and non-food credit growth – have been expanding during the year so far at rates that are significantly elevated relative to indicative trajectories given in the Annual Policy Statement of April 2008.
- The developments in monetary conditions resulted in a tightening of liquidity conditions in domestic financial markets through the second quarter of 2008-09.
- Signs of deterioration in the fiscal situation appear to be adding to aggregate demand pressures in the economy.
- Domestically, imported inflation pressures have been keeping headline inflation at elevated levels with considerable uncertainty as to where it will peak and when.

- Since the First Quarter Review of July 2008, global economic prospects have weakened further. The global economy is facing the deflationary effects of the financial crisis. There is increasing evidence that the US slowdown is spreading *via* the trade and financial channels.
- The outlook for the emerging economies remains positive, but uncertainties about their resilience to the global shocks have increased.
- The international financial system is gripped by extreme risk aversion in the wake of spectacular failures among the world's largest financial institutions, including several credited with history and tradition.
- Conditions in global financial markets have worsened with the freezing of inter-bank markets in US and Europe necessitating massive liquidity injection facilities from central banks in these economies, reduction of policy rates, recapitalisation of troubled private banks by governments, coordinated action by European governments to bail out weak banks and guaranteeing of all deposits in the banking system in many countries.
- In the overall assessment, global economic conditions have worsened and the future path of their evolution has turned highly uncertain. The broadening slowdown of economic activity in the advanced economies is beginning to impact the macroeconomic prospects of emerging economies, with those reliant on exports and on international financial markets for external financing needs likely to be the most vulnerable. Inflation remains elevated and a key risk to global economic prospects.

Stance of Monetary Policy

- This Mid-Term Review is set in the context of several complex and compelling policy challenges. There have been severe disruptions in international money markets, sharp declines in stock markets across the world and evidence of extreme risk aversion among financial sector participants. Governments, central banks and financial regulators around the world are responding to the crisis with aggressive, radical and unconventional measures to restore calm and confidence to the markets and bring them back to normalcy and stability.
- India's financial sector is stable and healthy. All indicators of financial strength such as capital adequacy, ratios of non-performing assets (NPA) and return on assets (RoA) for our commercial banks, which account for 88 per cent of banking assets, are robust.
- Nevertheless, the global developments have had some indirect, knock-on effects on domestic financial markets.
- In the wake of the stress on our financial markets as a result of the global financial crisis, the immediate challenge for the Reserve Bank was to infuse confidence by augmenting both domestic and foreign exchange liquidity. Accordingly, the Reserve Bank has taken a series of measures since mid-September, 2008

- The measures taken since mid-September 2008 have substantially assuaged liquidity stress in domestic financial markets arising from the contagion of adverse external developments.
- The task of monetary management has always centered around managing a judicious balance between price stability, sustaining the growth momentum and maintaining financial stability. The global financial turmoil, has, however, reinforced the importance of putting special emphasis on preserving financial stability. The current challenge, accordingly, is to strike an optimal balance between preserving financial stability, maintaining price stability, anchoring inflation expectations, and sustaining the growth momentum. To manage this challenge, the Reserve Bank has deployed and will continue to deploy both conventional and unconventional tools.
- Since the First Quarter Review of July 2008, there have been significant global and domestic developments which have rendered the outlook uncertain, and have increased the downside risks associated with this projection. Taking these developments and prospects into account, the Reserve Bank has revised the projection of overall real GDP growth for 2008-09 to a range of 7.5-8.0 per cent.
- Keeping in view the supply management measures taken by the Government and the lagged demand response to the monetary policy measures taken by the Reserve Bank over the last one year, the earlier projection of inflation of 7.0 per cent by end-March 2009 appears to be valid. It has, therefore, been decided to maintain this estimate for policy purposes.
- It will be the Reserve Bank's endeavour to bring down inflation to a tolerable level of below 5 per cent at the earliest, while aiming for convergence with the global average inflation of around 3.0 per cent over the medium-term.
- Going forward, the Reserve Bank's policy endeavour would be to modulate the monetary overhang generated by the sustained expansion of money supply since 2005-06.
- The Reserve Bank will monitor the rate of credit growth and credit quality closely and will, as necessary, engage with select banks which are outliers on the norms.
- The Reserve Bank will maintain a close vigil on the entire financial system to prevent pressures building up in the financial markets. This will include enhancing liquidity if pressures persist. This could also mean curtailing liquidity if the recent liquidity easing measures are seen to have injected excess liquidity, thereby stoking inflationary pressures.
- The management of the global financial crisis has highlighted two important aspects. First, that resolution of a crisis of this magnitude and complexity demands going beyond the rule book to unconventional, unorthodox and swift policy actions. Second, there is need for close coordination between the Government and the regulatory agencies without at the same time eroding institutional integrity and independence. These aspects are important and relevant for India too.

- The Reserve Bank has endeavoured to be proactive, and has taken measures to manage the rapid developments and ease pressures stemming from the global crisis. In conclusion, the Reserve Bank reiterates that it is confident of managing the situation and minimising the adverse impact of the global crisis on the Indian economy. Our financial system is strong and healthy, and our economic fundamentals are strong. Once the global situation is managed and calm and confidence are restored, we will return to our higher growth trajectory.
- Based on the above overall assessment of the macroeconomic situation, the stance of monetary policy for the rest of 2008-09 will be as follows:
 - Ensure a monetary and interest rate environment that optimally balances the objectives of financial stability, price stability and well-anchored inflation expectations, and growth;
 - Continue with the policy of active demand management of liquidity through appropriate use of all instruments including the CRR, open market operations (OMO), the MSS and the LAF to maintain orderly conditions in financial markets;
 - In the context of the uncertain and unsettled global situation and its indirect impact on the domestic economy in general and the financial markets in particular, closely and continuously monitor the situation and respond swiftly and effectively to developments, employing both conventional and unconventional measures;
 - Emphasise credit quality and credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

Monetary Measures

- The Bank Rate has been kept unchanged at 6.0 per cent.
- The repo rate under the LAF is kept unchanged at 8.0 per cent.
- The reverse repo rate under the LAF is kept unchanged at 6.0 per cent.
- The Reserve Bank has the flexibility to conduct repo/reverse repo auctions at a fixed rate or at variable rates as circumstances warrant.
- The Reserve Bank retains the option to conduct overnight or longer term repo/reverse 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.
- The cash reserve ratio (CRR) kept unchanged at 6.5 per cent.

Developmental and Regulatory Policies

Interest rate Policy

- Interest rate ceilings on FCNR(B) and NR(E)RA deposits were increased by 50 basis points each, *i.e.*, to Libor/Swap rates minus 25 basis points and to Libor/Swap rates plus 50 basis points, respectively effective from the close of business on September 16, 2008.
- These ceilings were increased further by 50 basis point each, *i.e.*, to Libor/Swap rates plus 25 basis points and Libor/Swap rates plus 100 basis points, respectively, effective from the close of business on October 15, 2008.

Financial Markets

- The Reserve Bank announced special market operations (SMO) on May 30, 2008 on an *ad hoc* basis which were conducted through designated banks in oil bonds held by public sector oil marketing companies. The SMO was terminated effective from August 8, 2008, but taking into account the continuing uncertain global situation and the potentially adverse implications for domestic financial markets, the Reserve Bank announced on October 15, 2008 that it has decided to reinstitute a similar facility when oil bonds become available.
- For fine-tuning the management of bank reserves on the last day of the maintenance period, a second liquidity adjustment facility (SLAF) is now conducted on a daily basis beginning September 17, 2008.
- A special 14-day repo for a notified amount of Rs.20,000 crore was announced on October 14, 2008, which was further extended to be conducted on a daily basis up to the cumulative amount of Rs.20,000 crore, to enable banks to meet the liquidity requirement of mutual funds.
- Banks were allowed to avail additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their NDTL.
- Restrictions on lending and buy-back only in respect of certificates of deposit (CDs) held by mutual funds relaxed effective from October 14, 2008.
- Floating rate bonds (FRBs) to be issued at an appropriate time taking into account the prevailing market conditions.
- Government of India 7 per cent Savings Bonds, 2002, the 6.5 per cent Savings Bonds, 2003 (non-taxable), and the 8 per cent Savings Bonds, 2003 (taxable) schemes allowed for pledge or hypothecation or *lien* of these bonds as collateral for obtaining loans from scheduled banks.
- The scheme for Non-Competitive Bidding Facility of State Development Loans (SDLs) to be operationalised by end-December 2008.
- Interest rate futures (IRFs) contracts as recommended by the Working Group on Interest Rate Futures to be launched in early 2009 along with the supporting changes in the regulatory regime.
- Access to NDS-OM through the Constituent SGL (CSGL) route further extended to investors such as other non-deposit taking NBFCs, corporates and FIIs.
- Arrangements for settlement of primary auction bidding under the multi-modal settlement mechanism on the anvil.
- CCIL to operationalise a clearing and settlement arrangement for OTC rupee interest rate derivatives on a non-guaranteed basis within a month, and on a guaranteed basis within three months.

- Registered trusts and societies engaged in manufacturing/ education/hospitals allowed to make investment in the same sector(s) in a joint venture (JV) or wholly owned subsidiary (WOS) outside India with the prior approval of the Reserve Bank.
- Indian entities allowed to invest in overseas unincorporated entities in the oil sector up to 400 per cent of their net worth as on the date of the last audited balance sheet.
- The external commercial borrowings (ECBs) policy modified - effective October 22, 2008, ECBs up to US \$ 500 million per borrower per financial year permitted for rupee expenditure and/or foreign currency expenditure for permissible end-uses under the automatic route.
- Payment for obtaining license/permit for 3G Spectrum allowed to be considered an eligible end-use for the purpose of ECBs.
- ECBs borrowers permitted to either keep proceeds off-shore or to remit to India for credit to their rupee accounts with AD Category-I banks in India, pending utilisation for permissible end-uses.
- All-in-cost ceilings for ECBs for average maturity period of three years and up to five years enhanced to 300 basis points and over five years enhanced to 500 basis points above LIBOR.
- A system of monitoring unhedged exposures of SMEs by banks on a regular basis being put in place.
- Definition of infrastructure for the purpose of availing of ECBs expanded to include mining, exploration and refining.
- Entities in the services sector, viz., hotels, hospitals and software companies permitted to avail ECBs up to US \$ 100 million in a financial year under the approval route for the purpose of import of capital goods.
- The Foreign Currency Exchangeable Bonds (FCEB) Scheme, 2008 notified on February 15, 2008 was operationalised by the Reserve Bank.
- AD Category – I banks allowed to convey 'no objection' under the Foreign Exchange Management Act (FEMA), 1999 for the creation of charge over immoveable assets and financial securities and issue of corporate or personal guarantees on behalf of the borrower in favour of the overseas lender to secure ECBs under automatic/approval route.
- Banks allowed to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or US \$ 10 million, whichever is higher, as against the existing limit of 25 per cent.
- The limit of US \$ 100,000 enhanced to US \$ 300,000 for making remittances for imports where the import bills/documents were received directly by the importer from the overseas supplier.
- The limit for advance remittance for import of goods without bank guarantee/stand-by letter of credit increased from US \$ 1 million or its equivalent to US \$ 5 million or its equivalent.
- The limit for advance remittance for import of services without bank guarantee enhanced from US \$ 100,000 to US \$ 500,000 or its equivalent.
- The usance period of letters of credit opened for import of platinum, palladium, rhodium and silver limited to 90 days from the date of shipment.

- The exchange traded currency futures started trading on the National Stock Exchange (August 29, 2008), the Bombay Stock Exchange (October 1, 2008) and the Multi Commodity Exchange – Stock Exchange (October 7, 2008).
- Final guidelines liberalising the procedure and achieving greater transparency regarding branch/liaison offices of foreign entities in India to be issued by end-December 2008.
- CCIL to operationalise settlement system of the foreign exchange forward segment within a month.
- Domestic oil and shipping companies permitted to hedge their freight risk with overseas exchanges/ OTC markets.
- All-in-cost ceiling for trade credit less than 3 years enhanced to 6 months LIBOR plus 200 basis points.

Credit Delivery

- Shortfall in the SCBs' sub-target of lending to weaker sections to be taken into account for the purpose of allocating amounts for contribution to the RIDF maintained with the NABARD or funds with other financial institutions as specified by the Reserve Bank, effective from April 2009.
- Banks allowed to classify 100 per cent of the credit outstanding under General Credit Cards (GCC) and overdrafts up to Rs.25,000 (per account) granted against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under the priority sector.
- RRBs permitted to sell loan assets held by them under priority sector categories in excess of the prescribed priority sector lending target of 60 per cent.
- Consequent upon announcements made in the Union Budgets for the years 2007-08 and 2008-09, public sector banks, RRBs and rural co-operative banks advised to grant interest rate subvention of 2 per cent per annum to farmers in respect of short-term production credit up to Rupees three lakh.
- Banks advised to select one rain-fed district for introduction of a cyclical credit product for financing crop production on pilot basis, where 20 per cent of the limit would be continuously available to farmers as a core component.
- Reserve Bank to provide a sum of Rs.25,000 crore as the first instalment under the Agricultural Debt waiver and Debt Relief Scheme 2008 as temporary liquidity support under Section 17(3-B) and Section 17(4-E) of the RBI Act to scheduled banks and the NABARD, respectively, till November 3, 2008.
- Detailed guidelines to banks on rehabilitation of potentially viable sick SME units to be issued by end-November 2008.
- RRBs to be allowed greater flexibility in opening new branches as long as they are making operational profits and their financials are improving.
- The report of the Working Group constituted for preparing a road map for RRBs to adopt appropriate technology and migrate to core banking solutions (CBS) forwarded to all sponsor banks for necessary action.
- Recommendations of the Working Group constituted to examine provision of financial assistance to RRBs for defraying a part of their initial cost in implementing information and communication technology (ICT)-based solutions for financial inclusion under examination.

- Feedback to be given to banks to make the process of financial inclusion more effective.
- Recommendations of the Special Task Force to give a fresh impetus for setting up of banking facilities at additional centres in the North-Eastern region are under implementation.
- A Model Scheme for Financial Literacy and Credit Counselling Centres to be notified.
- Report of High Level Committee constituted to review the Lead Bank Scheme and improve its effectiveness to be submitted by December 2008.
- Study on Courier/Postage charges levied by banks for collection of outstation cheques and for sending statements/cheque books to customers to be placed on Reserve Bank's website.

Prudential Measures

- Internal Working Group constituted to lay down the roadmap for adoption of a suitable framework for cross-border supervision and supervisory cooperation with overseas regulators to submit its report by mid-November 2008.
- An approach paper on the supervision of financial conglomerates to be finalised by end-November 2008.
- Working Group constituted to study and recommend a suitable supervisory framework for activities of SPVs/trusts set up by banks and to submit its report within three months.
- An approach paper on appropriate model of risk-based supervision to be finalised by mid-December 2008.
- An appropriate supervisory framework including a revised off-site surveillance system for overseas operations of Indian banks to be finalised by end-November 2008.
- Based on their off-site returns banks were identified and detailed information on the sources and deployment of their funds were sought, and concerns were conveyed to them for taking appropriate action.
- Supervisory reviews of banks' exposure to agricultural commodities carried out as on March 31, 2008 and June 30, 2008.
- Indian banks with overseas presence and branches of foreign banks functioning in India have migrated to Basel II Framework with effect from March 31, 2008 and remaining banks are required to migrate to the Basel II framework with effect from March 31, 2009.
- Guidelines related to liquidity risk management to be significantly revised.
- Guidelines on stress testing to be upgraded.

Institutional Developments

- The Payment and Settlement Systems Act, 2007 and the Payment and Settlement Systems Regulations, 2008 notified and have come into effect from August 12, 2008.
- Operating guidelines for mobile payments issued for adoption by banks under Section 18 of the Payment and Settlement Systems Act, 2007 with effect from October 8, 2008.
- Working Group constituted to suggest measures including the appropriate regulatory and supervisory framework to facilitate emergence of umbrella organisation(s) for the UCB sector to submit its report by end-December 2008.
- Existing exemption to Non-scheduled UCBs in Tier I regarding maintaining SLR not to exceed 7.5 per cent of NDTL with effect from October 1, 2009 and the exemption to be withdrawn effective from April 1, 2010.
- Non-scheduled UCBs in Tier I to maintain SLR in the form of Government and other approved securities not less than 7.5 per cent of their NDTL by September 30, 2009 and 15 per cent of their NDTL by March 31, 2010.
- Current prescription of holding SLR in Government and other approved securities not less than 15 per cent of their NDTL in respect of non-scheduled UCBs in Tier-II to continue up to March 31, 2010.
- From March 31, 2011 onwards all UCBs (non-scheduled and scheduled) to maintain SLR in Government and other approved securities up to 25 per cent of their NDTL.
- Final guidelines regarding prudential norms for non-deposit taking systemically important non-banking financial companies (NBFC-ND-SI) dated August 1, 2008 issued.
- Advisory Panel Reports and the overview report of the Committee on Financial Sector Assessment (CFSA) to be released by December 2008.

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