1998		V. EXTERNAL SECTOR DEVELOPMENTS *(Concld.)*
Mar.	12	case of refund of the advance, partly or fully, due to failure of the exporter to execute the export contract, the remittance would be by debit to the EEFC account. However, if the balance held in the EEFC account is insufficient, the exporter will have to arrange for replenishment of funds from his other EEFC accounts, if any, maintained with other branches/ADs.
May	5	● ADs were permitted to allow delayed remittances towards cost of imports up to a maximum period of 60 days beyond the period of six months provided no interest payment was involved subject to certain conditions.
June	6	● With a view to relaxing the exchange control policy, the Reserve Bank allowed branches of foreign companies operating in India to remit profits to their head offices without the prior approval of the Reserve Bank.
	11	● ADs were permitted to provide forward cover to FIIs in respect of their fresh investments in India in equity, effective June 12, 1998. ADs were also allowed to extend forward cover facility to FIIs to cover the appreciation in the market value of their existing investments in India. The amount eligible for cover would be the (i) difference between the market value of their investments as at the close of business on June 11, 1998 converted at the Reserve Bank reference rate of Rs.42.38 per US Dollar and the market value of investments at the time of providing the cover converted at the current rate; or (ii) fresh inflows (including reinvestments of cash balances lying in the accounts of the FIIs at the close of business on June 11, 1998) since June 11,1998, whichever is higher. ADs were given the option of extending the cover fund-wise or FII-wise according to their operational feasibility. The same facility was extended to NRIs/OCBs for their portfolio investments, effective June 16, 1998.
	15	● Transactions among FIIs with respect to Indian stocks would no longer require the post facto confirmation from the Reserve Bank.
		● The trigger point limit for investments in Indian companies by FIIs/NRIs/OCBs under the portfolio scheme was raised by 2 percentage points.
	22	● As a measure of further liberalisation, the government announced that the individual and aggregate portfolio investment ceiling for NRIs/OCBs/PIOs would be exclusive of the aggregate portfolio investment ceiling for FIIs. The aggregate investment ceiling for NRIs/OCBs/PIOs would be 10 per cent of the paid up capital of a company. In case of Indian companies listed on stock exchanges, the ceiling can be raised to 24 per cent of the paid-up capital by passing a General Body Resolution to that effect. The investment limit by a single NRI/OCB/PIO in the shares of a company under the portfolio investment scheme would continue to be 5 per cent of the paid up capital.
July	4	● With the view to simplifying the procedure for investments from NRIs/OCBs in Indian companies, the Reserve Bank decided to grant general permission under the Foreign Exchange Regulation Act (FERA) 1973, in respect of the 100 per cent scheme. Henceforth, Indian companies would not require the Bank's permission for the purpose of receiving inward remittances and issue of shares to the NRI/OCB investors under the 100 per cent scheme. These companies would, however, have to file the required documents with the concerned regional offices of the Reserve Bank within 30 days after the issue of shares to NRIs/OCBs.

1997		V. EXTERNAL SECTOR DEVELOPMENTS *(Contd.)*
Oct.	27	• ADs were permitted to extend forward cover to holders of FCNR/Non-Resident (External) Rupee accounts to enable them to hedge the balance therein.
		• Exporters were permitted to retain up to 50 per cent of foreign exchange receipts in foreign currency accounts with banks in India.
		• ADs were permitted to invest/borrow amounts up to a maximum extent of 15 per cent of their unimpaired Tier I capital as against the previous ceiling of US $ 10 million. ADs whose overseas borrowing/ investment limits under the revised norms fall below US $ 10 million were, however, required to obtain the approval of their Board of Directors for enhancement of the limits up to US $ 10 million.
	29	• FCNR(B) account holders, on their return to India, were allowed to continue to maintain FCNR(B) deposits at the contracted rate of interest, if they so desired till the maturity of the deposits.
Nov.	8	• Following the recent changes in the Gold Policy announced by the Government, seven banks which were authorised by the Reserve Bank to import gold and silver for sale to exporters, Special Import License (SIL) holders and returning NRIs, were authorised to import gold and silver for sale in the domestic market as well, without a licence or without surrender of SIL.
	10	• With a view to providing additional opportunities for investment of unutilised foreign currency funds raised through GDRs, FCCBs and ECBs, it was decided to consider requests from Indian companies for investment of such funds in rated certificates of deposit abroad.
	21	• The Committee on Hedging through International Commodity Exchanges (Chairman: Shri R.V. Gupta), formally submitted its Report to the Governor, Reserve Bank.
Dec.	2	• The facility granted to ADs in April 1997 to offer forward contracts based on past performance and declaration of an exposure was temporarily suspended. Banks were allowed forward contracts based only on documents evidencing exposure.
	3	• It was decided to reintroduce the system of monitoring the cancellations of forward contracts beyond US $ 500,000.
1998		
Jan.	20	• In order to simplify procedures for FDI under the 'automatic' route of the Reserve Bank, the Reserve Bank dispensed with the need for its prior approval for such proposals. The Reserve Bank, by issue of a Notification No.FERA.180/98-RB dated January 13, 1998, granted general permission under Sections 19(1) and 29(1)B of Foreign Exchange Regulation Act, 1973 to Indian companies which are eligible for getting approvals for investment under the automatic route of the Reserve Bank to issue and export shares to foreign investors provided the Indian company concerned satisfies the conditions laid down in the Notification. They were, however, required to file a declaration in form FC(RBI) together with the required documents within 30 days from the date of issue of shares.
Feb.	10	• ADs were allowed to permit advance payments in respect of other transactions such as engagement of foreign nationals, consultancy services, advertisement space in overseas newspapers/periodicals, specialised training to be imparted abroad/in India, *etc.*; but for payments exceeding US $ 15,000 or its equivalent a guarantee from an overseas bank of international repute was required.
		• ADs were permitted to allow remittances up to US $ 100,000 by Indian companies to overseas consultancy organisations for conducting feasibility studies for projects to be set up abroad by the proposed joint venture/ wholly owned subsidiary of the applicant Indian company.
		• The Reserve Bank removed quantitative restrictions on remittances of claims by Indian tour operator/ travel agents to foreign tourists.
	13	• In order to simplify the procedure for seeking foreign investment under the Government (SIA/FIPB) Route, the Reserve Bank granted general permission to Indian companies for issue and export of shares/ securities to foreign investors. Accordingly, Indian companies seeking foreign investment based on the approvals granted by SIA/FIPB would not require any clearance from the Reserve Bank. Indian companies satisfying the conditions stipulated in the letters of approval issued by SIA/FIPB could issue shares/ securities to foreign investors and file one copy of the application in form ISD together with the required documents with the concerned Regional Office of the Reserve Bank under whose jurisdiction their registered office is situated within 30 days from the date of issue of shares.
	17	• ADs were permitted to grant loans to individuals/firms/companies in India against the security of deposits held in NRO accounts of Non Residents.
Mar.	12	• ADs were permitted to allow exporters to credit up to 50/70 per cent, as the case may be, of the inward remittances received towards export advance, in freely convertible currencies, to their EEFC accounts. In

1997		V. EXTERNAL SECTOR DEVELOPMENTS *(Contd.)*
July	3	• The monetary ceilings up to which ADs were permitted to release exchange to persons going abroad for employment, emigration, basic travel quota, as also for casual remittances, donations, *etc.* were raised.
	6	• ADs/commercial banks in ACU countries were allowed to transfer ACU dollars among themselves instead of routing the transactions only through their respective central banks.
	7	• The Reserve Bank announced detailed eligibility criteria to apply for authorisation as a nominated agency for import of gold/silver/platinum from nominated agencies. As per the criteria, the applicant entity should be a scheduled commercial bank with an unimpaired total capital of at least Rs.300 crore, CRAR in India of at least 9 per cent, fairly advanced risk-management system, excellent track record and previous experience in gold-related business activities.
	23	• The limit for foreign currency holding by resident Indians was raised to US $ 2,000 for personal purposes inclusive of the limit of US $ 500 for numismatic purpose.
	25	• With a view to examining various issues related to hedging against price-risk through International Commodity Exchanges, the Reserve Bank appointed a Committee (Chairman: Shri R.V.Gupta) on Hedging through International Commodity Exchanges. The Committee was to (i) identify important import/export commodity groups where price volatility affects Indian corporates and where such risks can be hedged through recognised international commodity exchanges; (ii) carry out a review of financial instruments available on the exchanges; (iii) examine/identify the important facets of an appropriate corporate-level risk management policy/strategy and make suitable recommendations; and (iv) examine the nature and extent of legal impediments, if any, which bar the recourse of Indian entities to international commodity exchanges, and the steps required to be taken in this regard.
	26	• ADs were permitted to allow repatriation of income/interest earned on investments/deposits held in India by NRIs/OCBs on non-repatriation basis without approval from Reserve Bank.
		• ADs were permitted to grant loans/overdrafts to resident individuals/firms/companies in India against the collateral of fixed deposits held in NRE accounts subject to the conditions specified therein.
Aug.	11	• ADs were permitted to provide forward exchange cover to Foreign Institutional Investors (FIIs) in respect to their investments in debt instruments in India.
	18	• Exporters were permitted to extend trade related advances to their overseas importer-clients out of funds held in their EEFC accounts without the prior approval of the Reserve Bank. However, if the amount of such advances exceeded US $ 15,000, a guarantee/standby letter of credit was to be obtained from a bank of international repute.
	28	• Further liberalisation of policy on overseas Indian investment was announced under which two new fast track windows were made available: (i) through investment from balances under EEFC account (up to US $ 15 million) and (ii) through GDR route (maximum of 50 per cent of the amount raised).
Sept.	11	• Rating stipulation for ADs to invest funds in accounts permitted to be held in foreign currency in their books in India for which they had to manage the exchange risk in foreign currency Treasury Bills and/ or with banks abroad was dispensed with. However, the Boards of the concerned banks were to lay down guidelines for the investment taking into account all relevant factors including country risks, counterparty limits, *etc.*
	12	• The Reserve Bank clarified that the proceeds of ECBs and global depository receipts (GDRs) - retained abroad or held in foreign currency account in India – can be sold forward.
Oct.	21	• It was decided to implement the following measures relating to liberalisation of transactions on the capital account based on the recommendations of the Committee on Capital Account Convertibility (CAC): (i) Exporters/exchange earners would be allowed 50 per cent retention of exchange earnings in EEFC account, while, 100 per cent EOUs/EPZ units would continue to have the existing ceiling of 70 per cent; (ii) Indian project exporters need not approach the Reserve Bank for prior approval for a variety of purposes while executing projects abroad. Powers would be delegated to ADs to grant approval; (iii) ADs would be allowed to undertake forfeiting of medium-term export receivables; (iv) Corporate entities would be allowed to open offices abroad without the need for prior approval from the Reserve Bank. Capital and current expenditure would be allowed by ADs without any limit out of EEFC accounts. For other corporates, limits for such expenditure would be related to the turnover; (v) Banks would be allowed to provide credit/non-credit facilities to Indian ventures/wholly owned subsidiaries abroad. Banks would also be allowed to provide, at their discretion, buyers' credit/acceptance finance for facilitating exports of goods and services from India. The above exposures would, however, be subject to a limit of 5 per cent of the unimpaired Tier I capital. Higher limits would be considered by the Reserve Bank on merit; and (vi) SEBI registered Indian funds managers including mutual funds would be allowed to invest in the overseas markets subject to SEBI guidelines. Initially, there would be an overall cap of US $ 500 million; the ceiling for individual funds would be related to size of the fund subject to a maximum of US $ 50 million.

		V. EXTERNAL SECTOR DEVELOPMENTS
		(a) Major Trade Policy Measures
1997		
July	**9**	• Import of naphtha/fuel oil was permitted by the Independent Power Producers (IPPs) against the import licences issued by the Directorate General of Foreign Trade, subject to the prescribed conditions.
1998		
April	**13**	• Some major revisions effected in the Export and Import Policy 1997-2002 are: (i) shifting of nearly 340 import items from Restricted to Open General List, (ii) extension of the scope of Duty Exemption Pass Book Scheme, (iii) provision of special incentive schemes for exporters of a large number of commodities including agriculture and allied products, gems and jewellery, project goods, etc., (iv) reduction of the threshold limits under Export Promotion Capital Goods Scheme, export houses and various trading houses, (v) simplification of rules and procedures governing India's foreign trade and (vi) initiation of steps to improve infrastructure facilities.
		(b) Foreign Exchange Market
1997		
April	**4**	• Exporters were allowed to set up offices abroad for promoting exports by utilising funds held in their exchange earners' foreign currency (EEFC) accounts.
	7	• Foreign investors were allowed to invest up to 51 per cent equity in 16 more priority sector industries and 74 per cent equity in 9 high priority industries (both under automatic approval route).
		• The Reserve Bank delegated to its regional offices the work relating to grant of approval for foreign technical collaboration proposals to extend easy accessibility to applicants, effective April 21, 1997.
		• Under automatic route, the ceiling for lumpsum payment of technical know-how fee was increased from Rs.1 crore to US $ 2 million.
	9	• The Reserve Bank would grant permission to eligible companies for issue and export of shares to NRIs in one stage as against two stages earlier.
	15	• ADs were permitted to (i) borrow up to US $ 10 million from their overseas offices/correspondents without any conditions on end-use and repayment of such borrowings and (ii) invest funds in overseas money market instruments up to US $ 10 million.
		• With a view to imparting flexibility to corporates and improving liquidity in the forward markets for longer periods (beyond six months) ADs were permitted to book forward cover for exporters and importers without the requirement of documentary evidence of a firm order or letter of credit, but on the basis of a declaration of exposure supported by past performance and business projection.
		• ADs were allowed to run a swap-book within their open positions/gap limits and arrange forex-rupee swaps between corporates without prior approval of the Reserve Bank.
May	**2**	• Corporate exporters were permitted to extend trade-related advance to their importer-clients out of their EEFC accounts up to US $ 3 million per EEFC account, without obtaining the Reserve Bank's approval.
	3	• ADs were allowed to grant housing loans to NRIs with similar terms and conditions as applicable to residents.
		• ADs were permitted to effect transfer of funds between FCNR accounts of different persons maintained with the same AD or other ADs for any purpose, subject to certain conditions.
	15	• The offices of the Reserve Bank were delegated powers to release exchange towards annual budgeted expenses for overseas branches of Indian banks or development financial institutions.
	17	• The basic travel quota (BTQ) was made available for the eligible traveller irrespective of age.
	19	• LIC and a few housing finance companies were granted general permission to provide housing loans to NRIs for purchase of flat/house in India for residential purposes subject to certain conditions.
	23	• Residents were allowed to avail interest free loans for personal purposes or for carrying on business activities on repatriation basis under the automatic approval route within a limit of US $ 250,000 or its equivalent with a maturity of 7 years subject to certain conditions.
June	**4**	• ADs were permitted to credit up to 70 per cent of the inward remittances received by the 100 per cent EOUs or units located in EPZs/STPs/EHTPs to their EEFC accounts.
	16	• Guidelines for ECBs were relaxed further: (i) ECB of average maturity of 10 years and above would be outside the ECB ceiling and (ii) ECB limits for Telecom projects were made more flexible and an increase from 35 per cent to 50 per cent of the total project cost (including the licence fees) was allowed.

1998		**IV. CAPITAL MARKET DEVELOPMENTS** *(Concld.)*
Mar.	**6**	● SEBI signed a Memorandum of Understanding (MoU) with the United States Securities and Exchange Commission regarding co-operation, consultation and provision of technical assistance. By providing a framework for the maintenance of fair and open markets, the MoU would benefit the Indian securities markets by enhancing the confidence of international investors.
		● SEBI tightened the delisting norms by permitting delisting only in accordance with the norms specified by Chandratre Committee. The norms are: (i) on voluntary de-listing from regional stock exchanges, the company would have to make a "buy offer" to all the shareholders in that particular region; (ii) the promoters would have to buy or arrange buyers for the security; and (iii) the listing fees for three years should be taken from the companies at a time and be kept in the Escrow Account with the stock exchange.
	27	● SEBI announced that not more than 20 per cent of the entire contribution brought in by promoters cumulatively in public or preferential issue would be locked in.
		● SEBI decided that all publicly issued debt instruments, regardless of the period of maturity, would require rating by a credit rating agency.
		● SEBI permitted FIIs to lend securities so as to provide them with additional resources.
April	**7**	● In accordance with the recommendations of the C.B. Bhave Committee on continuing disclosure standards by the corporates, SEBI advised all the stock exchanges that all the listed companies are required to publish unaudited financial results on a quarterly basis and are also required to inform immediately to the stock exchanges of all events which would have a bearing on the performance/operations of the company as well as price sensitive information.
	24	● SEBI allowed dematerialised securities to be treated as good as delivery in the physical segment at both BSE and NSE. The list of compulsory dematerialisation was expanded to include 22 scrips with effect from June 1, 1998.
May	**11**	● SEBI approved the report of the Committee on Derivatives (Chairman: Shri L.C. Gupta) and its suggestive by-laws for regulation and control of derivative contracts.
June	**15**	● In a move to ensure investors protection, SEBI advised investors to exercise a great deal of caution while investing in plantation companies. At the same time, plantation companies and other collective investment schemes were directed to ensure credit rating by some accrediated credit rating agencies prior to issuing of advertisement.
	23	● SEBI amended SEBI (FIIs) Regulations, 1995, permitting FIIs to invest in unlisted companies through the 100 per cent debt route and to tender their securities directly in response to an open offer made in terms of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.
		● SEBI simplified the process of approval of sub-accounts of registered FIIs.
		● SEBI permitted FIIs to buy and sell derivative contracts which are traded on a stock exchange. FIIs were also permitted to trade in derivatives without requiring to take or give delivery.
July	**2**	● In order to curb excessive volatility in the stock prices, SEBI introduced a system of volatility margin on scrips replacing the system of weekly price band.
		(iii) Government of India
1997		
Nov.	**18**	● The Government directed that entities which issue instruments like agro bonds, plantation bonds, *etc.*, would come under the regulatory purview of SEBI and such entities would be treated as "Collective Investment Schemes".
1998		
June	**1**	● The Union Budget 1998-99 proposed to (i) divest its equity in non-strategic PSUs to 26 per cent and raise Rs.5,000 crore by way of disinvestment in PSUs; (ii) bring forward necessary amendments to the Securities Contracts, (Regulation) Act to enable trading of derivative instruments; (iii) abolish capital gains tax on stock lendings; (iv) increase the limits of purchase of shares in Indian companies in the secondary market by the NRIs and OCBs to 5 per cent and 10 per cent, respectively, from 1 per cent and 5 per cent, respectively, of the company's equity capital; and (v) allow provident funds to invest 10 per cent of their new accretion in private sector securities which have an investment grade rating from at least two credit rating agencies.

IV. CAPITAL MARKET DEVELOPMENTS

(i) Reserve Bank of India

1997		
April	**15**	• The Reserve Bank allowed commercial banks to invest up to 5 per cent of their incremental deposits in the previous year in ordinary shares of corporates including PSUs. Further, banks were allowed to extend loans to corporates against shares held by them to enable such corporates to meet promoters' contribution to the equity of the new companies in anticipation of raising resources, which would be covered under the 5 per cent investment ceiling.
1998		
Jan.	**5**	• The Reserve Bank decided in principle to permit FIIs to invest in Treasury Bills.
April	**29**	• The Reserve Bank increased the ceiling for banks' advances against shares and debentures to individuals from Rs.10 lakh to Rs.20 lakh if the advances are secured by dematerialised securities. The minimum margin prescription of 50 per cent for advances against shares was also reduced to 25 per cent against dematerialised shares.
		• FIIs were permitted to purchase/sell Treasury Bills within the overall approved debt ceilings.

(ii) Securities and Exchange Board of India (SEBI)

1997		
May	**14**	• In its classification XIX to the 'Guidelines for Disclosure and Investor Protection', SEBI, *inter alia*, announced that the 'observation letter' issued by SEBI would be valid for a period of 365 days instead of three months.
June	**17**	• SEBI advised all the stock exchanges to set up Clearing Houses/Clearing Corporations or Settlement Guarantee Funds.
Aug.	**12**	• SEBI introduced the Compendium of Disclosure and Investor Protection Guidelines, deleting the provisions which had lost relevance and rationalising overlapping provisions.
Oct.	**22**	• For expediting the process of dematerialisation of securities and settlement of transactions in the depository, SEBI decided that settlement of trades in the depository would be compulsory from January 15, 1998, for DFIs, banks, mutual funds and FIIs having a minimum portfolio of securities of Rs.10 crore as on their latest balance sheet date. To begin with, SEBI has identified eight securities for which settlement of trades by the above mentioned investors would be in dematerialised form.
	27	• SEBI issued guidelines relating to 100 per cent book-building in an issue of securities to the public through a prospectus. It recommended a two-tier underwriting system for book-built issues. The syndicate members would now be responsible for the primary underwriting and the book runners would take on their liability in case of default. SEBI also stipulated that there should be at least 30 bidding centres, with the syndicate members being present at each centre.
Nov.	**13**	• SEBI allowed institutional investors, FIIs, stock brokers, stock exchanges *etc.* to make use of the facility of 'warehousing' of trades, subject to certain conditions. The 'warehousing' of transactions facilitates execution of firm client order for a large quantity in parts during the same trading cycle with issue of only one contract note at the weighted average price at the end of the trading cycle.
Dec.	**5**	• SEBI amended the SEBI (Merchant Bankers) Regulations, 1992, whereby NBFCs also operating as merchant bankers were required to segregate their capital market related activities from the NBFC activities with immediate effect.
		• SEBI amended the SEBI (FIIs) Regulations, 1997, to make it mandatory for FIIs having securities of Rs.10 crore or more, as on the latest balance sheet date, to settle their transactions only through dematerialised securities from January 15, 1998.
	17	• SEBI imposed a uniform intra-day price band of 10 per cent on all securities on all stock exchanges, in addition to the 25 per cent weekly price cap being followed by all exchanges.
1998		
Jan.	**5**	• SEBI introduced rolling settlement (T+5) in respect of trading in the demat segment of all companies with effect from January 15, 1998.
		• SEBI amended the SEBI (Depositories and Participants) Regulations, 1996, to allow dematerialisation of government securities.
Feb.	**24**	• SEBI directed that existing collective investment schemes could mobilise money from the public or from the investors under their existing schemes only if a rating had been obtained.

1998		III. BANKING POLICY MEASURES *(Concld.)*
May	**12**	• The Reserve Bank permitted two foreign banks to open a branch each in India, viz., Morgan Guarantee Trust company of New York, USA, a banking subsidiary of JP Morgan and Co., USA, and Kredietbank N.V. of Belgium.
	30	• The Reserve Bank advised all scheduled commercial banks to take immediate appropriate action on the recommendations made by the one-man high level committee on Agricultural Credit through Commercial Banks (Chairman: Shri R.V. Gupta).
June	**4**	• The Reserve Bank decided to permit foreign banks operating in India to remit their profit/surplus to their head offices without the prior approval of the Reserve Bank. However, the permission is subject to the banks complying with the provisions of the Banking Regulation Act, 1949 and the directions issued by the Reserve Bank from time to time.
		• It was decided to allow banks freedom to undertake credit card business either independently or in tie-up arrangement with other card issuing banks without the prior approval of the Reserve Bank. However, banks desirous of setting up a separate subsidiary for credit card business will require prior approval of the Reserve Bank.
	11	• For the financial year 1998-99, banks were asked to compute its share of the housing finance allocation at 1.5 per cent of its incremental deposits or the amount of its housing finance allocation fixed for the year 1997-98, whichever was higher.
	22	• In the context of the experience gained by the banks regarding extension of relief measures to persons affected by natural calamities, it was decided to modify the existing guidelines by delegating more powers and discretion to banks in relation to operational aspects and extension of relief to the affected borrowers (farmers) expeditiously, without repeated references to the Reserve Bank. In pursuance of this objective, banks were advised to evoke a suitable policy framework with the approval of the board of directors.
	29	• It was clarified to banks that they may charge interest on agricultural advances at annual rests in case of long duration crops only. As regards other agricultural advances in respect of short duration crops and allied activities, banks may take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting/marketing season while charging interest and compound the same if the loan instalment becomes overdue.
	30	• The one-man committee (Chairman: Shri S.L. Kapur) set up by the Reserve Bank in December 1997 to review the working of credit delivery system for SSIs submitted its report. The main recommendations include (i) special treatment to smaller among small industries; (ii) removal of procedural difficulties in the path of SSI advances; (iii) sorting out issues relating to the mortgage of land, including removal of stamp duty and permitting equitable mortgages; (iv) allowing access to low cost funds to SIDBI for refinancing SSI loans; (v) non-obtention of collaterals for loans up to Rs.2 lakh; (vi) setting up of a collateral reserve fund to provide support to the first generation of enterprenuers who find it difficult to furnish collateral securities to third party guarantees; (vii) setting up of a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan and urban areas; (viii) change in the definition of sick SSI units; (ix) giving statutory powers to state level inter-institutional committee (SLIC); (x) setting up of a separate guarantee organisation and opening of 1,000 additional specialised branches; and (xi) enhancing of SIDBI's role and status to match that of NABARD.
July	**3**	• The Reserve Bank permitted banks to accept reverse ready forward deals by the 5 non-bank entities (which were allowed by the Government of India to enter into reverse ready forward contracts in Treasury Bills of all maturities and in such dated securities as are approved by the Reserve bank in consultation with the Central Government via notification dated April 24, 1998) subject to the conditions that (i) reverse ready forward deals for the aforesaid instruments are undertaken only in Mumbai and (ii) such transactions shall be put through the Subsidiary General Ledger (SGL) account with the Reserve Bank.
		• It was decided that profit making banks may make donations during a financial year, up to one per cent of the published profit of the bank for the previous year inclusive of donations made earlier under exempted category and donations to national funds and other funds. However, loss making banks were allowed to make donations aggregating Rs.5 lakh only in a financial year. Moreover, the unutilised amount of the permissible limit in a year is not to be carried forward to the next year for the purpose of making donations.

1998		III. BANKING POLICY MEASURES *(Contd.)*
Mar.	**4**	past due for two harvest seasons but for a period not exceeding two half years from the accounting year 1997-98.
April	**11**	● As per the current Reserve Bank guidelines, banks are required to value the government securities in the 'current' category as per market quotations as on the last day of March whenever available; and to use the yields indicated by the Reserve Bank for the valuation of government securities where market quotations are not available. The Reserve Bank indicated the maturity-wise details for the valuation of banks' investment portfolio for drawing up balance sheet as on March 31, 1998. The Yield To Maturity (YTM) was given as 12.15 per cent for securities of 10 years and beyond while the YTM was given as 9.43 per cent for securities of less than one year.
	21	● A one-man committee (Chairman: Shri R.V. Gupta), set up by the Reserve Bank in December 1997 to review the issues on agricultural credit and also to suggest measures that would give an impetus to the flow of credit to this sector submitted its report. The main recommendations were (i) fixing targets for agricultural loans on the basis of 'flow' of credit as against 'outstandings'; (ii) making a comprehensive assessment of the credit needs of an agricultural borrower and extending a composite cash credit limit which is reckoned as agricultural credit under the priority sector; (iii) permitting banks to fix interest rates on agricultural loans along with the freedom to offer finer rates to those borrowers having a good recovery record and to those who opt for a savings module linked to the loan product; (iv) delegating powers to branch level; (v) addressing a host of HRD related issues with regard to bank officials posted at rural branches; and (vi) a review and rationalisation of forms and returns to be filled up in the case of agricultural loans.
	24	● The Working Group on harmonising role of development financial institutions (DFIs) and banks (Chairman : Shri S.H. Khan), submitted its summary recommendations to the Governor, Reserve Bank. The major recommendations of the committee were : (i) a gradual move towards universal banking and evolving an enabling regulatory framework for this purpose; (ii) exploring the possibility of gainful mergers between banks and banks and financial institutions, between strong and weak entities led by profitability and viability conditions or two strong ones; (iii) developing a function specific regulatory framework and a 'risk based supervisory framework'; (iv) establishment of a 'super regulator' to supervise and co-ordinate the activities of multiple regulators; (v) speedy implementation of legal reforms to hasten debt recovery; (vi) consolidated supervision of banks and financial institutions; (vii) reducing CRR to the international standards; and (viii) phasing out SLR. The Working Group also made several interim recommendations towards achieving co-ordination and harmonisation of the lending policy of the banks and the financial institutions before they move towards universal banking. These include the removal of ceiling on mobilisation of resources by DFIs, stipulating a suitable level of SLR on incremental fixed deposits of DFIs and granting ADs license to DFIs.
	27	● An informal advisory group on NBFC was formed in order to review the implementation of the new NBFC regulations issued earlier this year.
	29	● With a view to adopting prudent accounting standards and to move towards "mark to market" valuation of the investment portfolio, banks are required to classify a minimum of 70 per cent of their securities as 'current investments' for the year ending March 31, 1999.
		● As part of risk management, banks were advised to monitor unhedged exposures of their clients by building in adequate risk evaluation procedures in their credit appraisal system.
		● In the light of the recommendations of the High Level Committee on Banking Sector Reforms (Chairman : Shri M. Narasimham), it was indicated that specific decisions would be taken in order to strengthen the existing capital adequacy, income recognition and provisioning norms.
		● In the context of the Narasimham Committee's recommendations for strengthening the disclosure and auditing requirements of banks and for transparency in banking operations, it was proposed to move towards full disclosure and transparency in line with international best practice as early as possible.
		● In the light of recent developments in South-East Asia, it was proposed to further strengthen the prudential regulations to cover such exposures in respect of short-term foreign currency loans and for other cross-border operations in case of Indian banks, keeping in view the international best practices and our country's specific requirements.
		● It was proposed to prepare a 'Discussion Paper', which would contain the Reserve Bank's draft proposals for bringing about greater clarity in the respective roles of banks and financial institutions and for greater harmonisation of facilities and obligations applicable to them taking into account those recommendations of the Narasimham Committee which have a bearing on the issues considered by the Working Group of Chairmen of some commercial banks and DFIs. The Reserve Bank has appointed a consultant for processing the report for initiating further action.
May	**12**	● The Reserve Bank introduced certain modifications in the norms for accounting for investment and provisioning against NPAs of NBFCs.

1997		**III. BANKING POLICY MEASURES** *(Contd.)*
Dec.	**6**	• Banks would grant term loans to housing intermediary agencies, only against the direct loans sanctioned/ proposed to be sanctioned (including those to NRIs) by the latter, where the loan per individual by such intermediary does not exceed Rs.5 lakh in rural/semi-urban and Rs.10 lakh in metropolitan areas, respectively.
	8	• The Reserve Bank constituted a Working Group (Chairman : Shri S.H.Khan), to examine the harmonisation of the role and operations of development finance institutions (DFIs) and banks.
		• The system of Credit Monitoring Arrangement (CMA) was discontinued.
	23	• During the year 1997-98, permanent investments of the banks in approved securities should not exceed 40 per cent and the banks which have marked to market their securities at a higher percentage than prescribed were not to bring down the proportion of 'current' category securities later.
	26	• The Government of India set up a High Level Committee (Chairman: Shri M. Narasimham) to review the record of implementation of financial sector reforms recommended by the Narasimham Committee in November 1991.
1998		
Jan.	**2**	• The Reserve Bank announced a new policy framework for NBFCs. NBFCs were divided into three categories for regulation viz., (i) those accepting public deposits; (ii) those which do not accept public deposits and are engaged in the financial business; and (iii) core investment companies which hold at least 90 per cent of their assets as investments in the securities of their group/holding/subsidiary companies. While NBFCs accepting public deposits would be subject to all the regulations, those not accepting public deposits would be regulated in a limited manner.
	27	• Banks were directed to disclose the following information in the 'Notes on Accounts' to the balance sheets for March 31, 1998: (i) capital adequacy ratio - tier I capital and tier II capital separately; (ii) percentage of share holding of the Government of India in the nationalised banks; (iii) percentage of net NPAs to net advances; (iv) amount of provisions made towards NPA, depreciation in the value of investments and income-tax during the year; (v) amount of subordinated debt raised as tier-II capital; (vi) the gross value of investments in India and outside India, the aggregate provisions for depreciation separately on investments in India and outside India and the net value of investments in India and outside India; (vii) interest income as a percentage of average working funds; (viii) non-interest income as a percentage of working funds; (ix) operating profit as a percentage of working funds; (x) return on assets; (xi) business (deposits plus advances) per employee, and (xii) profit per employee.
Feb.	**3**	• Merchant Banking Companies were exempted from the provisions of RBI Act, 1934, relating to compulsory registration (section 451A), maintenance of liquid assets (section 451B), creation of reserve fund (section 451C) and all the provisions relating to deposit acceptance and prudential norms provided that they are registered with SEBI and comply to certain conditions.
	10	• Self-Help Groups (SHGs) registered or unregistered, engaged in promoting saving habits among their members, became eligible to open savings bank accounts with banks.
	12	• The Reserve Bank introduced certain modifications in the norms for accounting for investments and provisioning against non-performing assets.
		• NBFCs which fail to repay the matured deposits as per the terms of their acceptance or interest thereon were directed that they cannot create any asset in any manner including by granting of loan or making of investment. This is expected to deter the NBFCs in diverting the funds with malafide intentions at the cost of their creditors and enhance the protection available to their depositors.
	19	• In order to ensure that banks encourage the units in the tiny sector, it was decided that out of the funds available to SSI sector under priority sector advances, banks would ensure that; (i) 40 per cent were to be lent to those with investment in plant and machinery up to Rs.5 lakh, (ii) 20 per cent were to be lent to those with investment in plant and machinery between Rs.5-25 lakh and (iii) the balance 40 per cent were to be lent to the remaining units. It may be noted that via the Gazette notification of the Government of India on December 10, 1997, an industrial unit having investment in fixed assets in plant and machinery up to Rs.300 lakh was accorded the status of a SSI and the investment limit in respect of 'tiny enterprises' was increased from Rs.5 lakh to Rs.25 lakh.
Mar.	**4**	• To reduce price risks, banks were asked to lay down, with the approval of their Boards, prudential limits on taking open position in gold and also obtain the specific approval of the Reserve Bank on such limits. Banks keeping open position in gold would also maintain tier I capital to the extent of 5 per cent of the open position limit, as in the case of forex open position, in addition to the existing capital adequacy requirements specified by the Reserve Bank.
		• The Reserve Bank clarified that advances granted for agricultural purposes would be treated as non-performing assets (NPAs) if interest and/or instalment of principal remains unpaid, after it has become

1997		III. BANKING POLICY MEASURES *(Contd.)*
Oct.	**14**	● Banks were permitted to undertake transactions in securities among themselves or with non-bank clients through the members of Over The Counter Exchange of India (OTCEI), in addition to the National Stock Exchange (NSE).
	21	● Banks were allowed to borrow from as well as invest in overseas money markets, in each case, up to a maximum extent of 15 per cent of their unimpaired Tier I capital, as against the earlier uniform ceiling of US $ 10 million in each case.
		● As a further step in the direction of deepening and widening the foreign exchange market, the forward cover facility to NRI depositors was extended in respect of deposits held in NR(E)RA and FCNR(B) Schemes.
		● Banks were given freedom to stipulate margins on loans to individuals against preference shares and debentures/bonds of corporate bodies.
		● Banks were advised to devise with the approval of their Boards, alternative (other than 'current ratio') methods of assessing loan requirements of services and trade sectors.
		● Bank advances to road and water transporters owning not more than ten vehicles including ones proposed to be financed, for purchase of vehicles, were to be treated as priority sector advances, as against six vehicles, earlier.
		● In order to enhance the flow of resources (for housing in rural and semi-urban areas) the ceiling of bank advances was increased from Rs.3 lakh to Rs.5 lakh for purposes of computation of priority sector advances.
		● Banks were permitted to sanction bridge loans to companies for a period not exceeding one year against expected equity flows/issues. Such loans were to be accommodated within a ceiling of 5 per cent of incremental deposits of the previous year prescribed for banks' investments in shares.
		● Banks were advised that the minimum level of 'loan component' for borrowers with working capital (fund-based) credit limit of Rs.10 crore and above would remain at 80 per cent. In the case of borrowers with working capital (fund-based) credit limit of less than Rs.10 crore, banks may persuade them to go in for the 'Loan System' by offering an incentive in the form of lower rate of interest on the 'loan component' as compared with that on the 'cash credit component'.
	22	● With a view to making the scheme of MMMF more flexible, MMMFs were permitted to invest in rated corporate bonds and debentures with a residual maturity of up to one year, in addition to the existing prescribed investment avenues.
	27	● It was decided to dispense with the requirement of minimum current ratio of 1.33:1 as part of the eligibility norms for issue of CP.
Nov.	**4**	● With a view to ensure prompt settlement of dues of SSI units, as also encouraging 'bills culture', banks were to advise their corporate borrowers to finance their domestic credit purchases from SSI units, as also from SSI and others taken together, at least to the extent of 25 per cent, by way of acceptance of bills drawn on them by their suppliers, effective January 1, 1998.
	11	● Keeping in view the general reduction in the interest rates in the financial sector as also the cost involved in mobilising daily deposits, the minimum rate of interest payable by residuary non-banking companies (RNBCs) was reduced to 6 per cent per annum. The interest rate for recurring deposits at monthly and longer intervals and other term deposits of over 12 months and up to 84 months was also revised downwards to 8 per cent per annum.
	15	● Banks were advised to devise, with the approval of their Boards, the policy for financing of trade and services sectors as well as the methodology for assessing the credit requirements of their borrowers.
	26	● It was decided that urban co-operative banks should adopt the following method of valuation of investments for valuation of shares and bonds of public sector companies. **Shares :** (i) Wherever stock exchange quotations are available, the shares were to be valued accordingly; and (ii) shares of PSUs were to be valued at the break-up value as per balance sheet as at end-March, 1997. In case the balance sheet is not available, the break up value as per March 31, 1996, balance sheet was to be worked out and reduced/ discounted by 20 per cent. **PSU Bonds :** Valuation of PSU bonds may be done at lower of the cost or market value.
	27	● No prior approval of the Reserve Bank or concurrence of the Indian Banks' Association would be needed by the banks for the introduction of new domestic (but not NRI) deposit schemes.
Dec.	**1**	● District central co-operative banks (DCCBs) were authorised to open and maintain non-resident accounts in rupees.
	4	● It was decided that government guaranteed advances by FIs need not be classified as NPAs even if dues in such accounts are in arrears and are not reckoned for income recognition purposes.

1997		III. BANKING POLICY MEASURES *(Contd.)*
June	18	guaranteed bonds, as against 5 per cent prescribed earlier. Such of the other NBFCs (excluding residuary NBFCs) which were required to maintain 10 per cent of deposits in these assets would be required to maintain higher liquidity at 12.5 per cent and 15 per cent of deposits, effective January 1, 1998 and April 1, 1998, respectively.
		● Housing finance companies (HFCs) were exempt from all the provisions of Chapter IIIB of the Reserve Bank Act, 1934, as amended by the Reserve Bank of India (Amendment) Act, 1997, as they are regulated by a separate regulatory authority, the NHB. Accordingly, the HFCs were not required to apply for certificate of registration from the Reserve Bank as provided in Section 451A of the Reserve Bank Act.
		● The percentage of liquid assets to be maintained by NBFCs in unencumbered government securities/ guaranteed bonds was revised and enhanced in a phased manner, effective January 1 and April 1, 1998. While issuing the direction on custody of securities by NBFCs, these securities should be kept with a designated bank at a place where the registered office of the NBFC is located.
July	5	● The Reserve Bank appointed a Banking Ombudsman at Ahmedabad for the states of Gujarat and the Union Territories of Dadra and Nagar Haveli and Daman and Diu, thereby increasing the number of Banking Ombudsmen functioning in the country to 14.
	17	● All primary co-operative banks were advised to clearly indicate the simple rate of interest per annum for the period of the deposit instead of highlighting only the compound yield on term-deposits.
Aug.	13	● Banks were given freedom in respect to the period of lease finance as against the earlier stipulation of a maximum of five years (seven years in exceptional cases). Banks were to frame an appropriate policy on leasing business with the approval of their Boards.
		● The relaxation granted in respect of financing of IRDP beneficiaries of RRBs was further extended for one more year and the existing arrangement in regard to financing of IRDP and priority sectors would be continued till March 31, 1998.
	28	● All scheduled commercial banks (except RRBs) were to maintain, under Section 24 of the Banking Regulation Act, 1949, SLR on the liabilities under Asian Currency Union (ACU) dollar balances in vostro accounts of commercial banks of ACU member countries held with scheduled commercial banks in India at the rate of 25 per cent, effective fortnight beginning September 13, 1997.
	30	● HFCs promoted/sponsored by commercial banks as also HUDCO and HDFC which are eligible for refinance from National Housing Bank (NHB) were exempt from the limit of 3 times of their NOF, as per the last audited balance sheet fixed by NHB, for term loans.
Sept.	1	● The Working Group (Chairperson : Smt. K.S. Shere) on creation of separate instrumentality for regulation and supervision of residuary and other non-banking financial companies and extension of deposit protection scheme, submitted its report.
	2	● The stipulations of a ceiling of Rs.500 crore for term loans by banks for a single infrastructure project and of Rs.1,000 crore for power generation projects were dispensed with; accordingly, banks were free to sanction term loans to all projects within the overall ceiling of the prudential exposure norms prescribed by the Reserve Bank , *viz*., 25 per cent of the capital funds in the case of an individual borrower and 50 per cent in the case of borrower group. The Group Exposure norm of 50 per cent was allowed to exceed up to 10 per cent provided the additional exposure is for the purpose of financing infrastructure projects. Further, banks were declared free to decide the period of term loans keeping in view the maturity profile of their liabilities.
		● The stipulation regarding the ceiling/sub ceiling on the quantum of term-loans, which can be granted by banks individually or in consortia/syndicate for a single project, was dispensed with, subject to existing prudential exposures prescribed by the Bank.
	8	● The Reserve Bank appointed a Banking Ombudsman at Thiruvanthapuram for the state of Kerala and the Union Territory of Lakshadweep, thereby increasing the number of Banking Ombudsmen functioning in the country to 15.
		● The Reserve Bank authorised seven banks to act as agencies for import of gold/silver/platinum.
	25	● It was observed that companies engaged in plantation/agro-based activities were obtaining large number of cheque books from certain banks and were issuing post-dated cheques for period ranging from 1 to 25 years. To prevent this practice, banks were advised to ensure that cheques are needed for genuine short-term business requirements.
	30	● On a review of the issue of granting ‘at par’ facility for dividend/interest warrants and refund orders, it was decided to leave the entire scheme at the discretion of banks subject to proper safeguards and internal control mechanism.

1997		III. BANKING POLICY MEASURES *(Contd.)*
April	15	credit limit per borrower as against the earlier threshold credit limit of Rs.50 crore per borrower, subject to observance of exposure limits. As an alternative to sole/multiple banking/consortium arrangement, banks were free to adopt syndication route, irrespective of the quantum of credit involved, if the arrangement suits the borrower and the financing banks.
		● Following further modifications in the loan system for delivery of bank credit were effected : (i) in the case of borrowers enjoying working capital credit limit of Rs.20 crore and above from the banking system, the loan component was raised to 80 per cent from 75 per cent; (ii) in the case of borrowers enjoying working capital credit limit of Rs.10 crore and above but less than Rs.20 crore, loan component was raised to 75 per cent from 60 per cent; (iii) bank boards were given freedom to identify business activities which are cyclical and seasonal in nature or have inherent volatility. Such activities where the strict application of loan system may create difficulties for the borrowers may be exempt from the loan system of delivery; (iv) keeping in view the convenience to borrowers, the following changes were made in the 'Loan System' : (a) the minimum period of loan and its spread over various maturities subject to roll over could be fixed by the concerned banks; (b) the financing bank may permit borrowers to invest their short term/temporary surplus in short term money market instruments like Commercial Paper (CP), Certificates of Deposit (CDs) and in term deposits with banks, *etc.*
		● Consistent with the policy of liberalisation, banks were allowed full operational freedom to evolve their own methods of assessing the working capital requirements of borrowers within the prudential guidelines and exposure norms already prescribed and all instructions relating to MPBF were withdrawn.
		● As part of the efforts to give greater operational freedom to banks, the existing overall limits of bank credit to those NBFCs that had fully complied with the requirements of registration, credit rating and prudential norms were removed.
	30	● In terms of the amended provisions of Section 45 1B, the Reserve Bank announced with immediate effect certain refinements as regards the quantum, date of reference, returns and penalty involved in the percentage of liquid assets to be maintained by NBFCs.
May	9	● With a view to effectively regulating the activities of the NBFCs and thereby improving their financial health and viability, the Government promulgated an ordinance bringing about comprehensive changes in the provisions of Chapters IIIB and V of the Reserve Bank Act, 1934 effective January 9, 1997. The Ordinance was replaced by the Reserve Bank of India (Amendment) Act, 1997 in March 1997 which also modified the provisions of Chapter IIIC of the Reserve Bank Act relating to acceptance of deposits by unincorporated bodies, effective April 1, 1997. The Act stipulates that (i) a new NBFC can not operate unless it is registered with the Reserve Bank and has a minimum net owned funds (NOF) of Rs.25 lakh; (ii) all existing NBFCs were required to apply for registration by July 8, 1997; (iii) NBFCs with NOF of less than Rs.25 lakh were given three years (extendable by another three years at the Reserve Bank's discretion) to reach that level; (iv) the Reserve Bank was empowered to cancel the certificate of registration issued to any NBFC; (v) NBFCs were to maintain liquid assets of not less than 5 per cent of their deposits or such higher percentage not exceeding 25 per cent as may be fixed by the Reserve Bank; failure to do so would attract penalty from the Reserve Bank; (vi) every NBFC would create a reserve fund and transfer to it at least 20 per cent of its net profit every year before declaring a dividend; (vii) the Reserve Bank was authorised to issue directives relating to disclosures, prudential norms on income recognition, accounting standards, provisioning for bad and doubtful debts, credit concentration *etc.*; (viii) the Company Law Board was empowered to adjudicate and pass orders in the case of non-repayment of deposits/interest by NBFCs; and (ix) unincorporated bodies engaged in financial activities were debarred from accepting deposits, effective April 1, 1997.
	10	● With a view to enabling the financial institutions (FIs) to have more flexibility in raising resources, (i) it was decided to fix an umbrella limit (in place of instrument-wise limits fixed for each FI earlier) for mobilisation of resources by way of term money borrowings, CDs, term deposits and inter-corporate deposits for each FI; the overall ceiling for the umbrella limit would be equal to the NOF of the FI; (ii) the maturity period for term deposits of FIs was prescribed at '1 to 5 years' instead of the earlier '3 years and above'; and (iii) the minimum amount of CDs to be accepted by FIs from a single subscriber was reduced to Rs.10 lakh from Rs.25 lakh.
	28	● Finance extended to State Electricity Boards (SEBs) for system improvement scheme in the rural areas under Special Project Agriculture (SI-SPA) of Rural Electrification Corporation (REC) were to be classified as 'Indirect Finance to Agriculture' under priority sector.
June	18	● In order to enhance the financial soundness of the NBFCs and strengthen the protection available to investors, the Reserve Bank announced an increase in the percentage of liquid assets to be maintained by them under the provisions of Section 451B of the Reserve Bank Act, 1934 in a phased manner. Accordingly, effective January 1, 1998 and April 1, 1998, the unregistered loan/investment companies would maintain 7.5 per cent and 10 per cent of their deposits, respectively, in government securities/

Year/Month	Date	II. INTERNAL DEBT MANAGEMENT POLICIES *(Concld.)*
1998		
April	**29**	ceilings; (v) with the repo and reverse repo operations gaining considerable momentum in open market operations of the Reserve Bank in recent years, the use of both fixed interest and auction based repos, as appropriate, was proposed; (vi) in addition to the current three-day and four-day repos, the Reserve Bank would in due course introduce one-day repos (including reverse repos) to absorb (or infuse) liquidity into the system; and (vii) the ratio of current investments for banks in approved securities would be progressively increased to 100 per cent in the next three years in line with international best practice.
June	**11**	● Following the policy decisions taken by RBI/SEBI and amendments to SEBI (FIIs) Regulations, 1995, the RBI guidelines issued on March 8, 1997 specifying the manner of transactions by the FIIs was amended to enable equity funds to invest in government dated securities (both Government of India and state governments) and Treasury Bills, both in the primary and the secondary markets, within their debt ceiling of 30 per cent.
	23	● With a view to enabling the SDs to have access to short term borrowings, the Reserve Bank decided to permit them to issue CP under certain guidelines; (i) In order to be eligible to issue CP, the SD is to obtain the specified minimum credit rating from a credit rating agency. (ii) At the time of issue of CP, the credit rating obtained should be current and not more than two months old. (iii) The CP would be issued for maturities between 15 days and more, but less than one year. (iv) Every issue of CP including renewals will be treated as a fresh issue. (v) The CP may be issued in multiples of Rs.5 lakh, but the amount to be invested by any single investor should not be less than Rs.25 lakh. (vi) The total amount of CPs proposed to be issued is to be raised within a period of two weeks from the date of approval by the Reserve Bank and the aggregate amount raised is not to exceed the amount fixed by the Reserve Bank for the issue. (vii) SDs are not to have the issue of CP underwritten or co-accepted in any manner whatsoever.
		III. BANKING POLICY MEASURES
1997		
April	**9**	● The revised guidelines for classification of bank advances for agricultural purposes were made applicable from 1997-98 and not from 1996-97, as was decided earlier (*i.e.* February 19, 1997).
		● Any excess provision for depreciation in investments held by banks, as at the end of the financial year 1995-96, over the requirement for the same for the year 1996-97, were to be taken to the profit and loss account under the head 'Expenditure, Provisions and Contingencies' as a credit item. Thereafter, an equivalent amount were to be appropriated to 'Capital Reserve' account and shown under 'Reserves and Surplus' in the balance sheet. The excess provision towards depreciation in investments held under 'Reserves and Surplus' would be eligible for inclusion in Tier II capital.
	10	● As a further step towards moving to the international practice of valuing all investments on a fully 'marked to market' basis, which would facilitate the development of an active and healthy secondary market in government securities, the ratio of 'permanent' and 'current' investments in the approved securities was lowered to 40:60 per cent for 1997-98 from 50:50 per cent for 1996-97.
	12	● Banks were allowed to book income on accrual basis on securities of corporate bodies/public sector undertakings (PSUs) in respect of which the payment of interest and repayment of principal were guaranteed by the Central Government or a state government. Banks might book income from dividend on shares of corporate bodies on accrual basis provided dividend on the shares were declared by the corporate body in its Annual General Meeting and the owners' right to receive payment was established.
	15	● In order to accelerate the flow of production credit to agriculture, the limit under the General Line of Credit (GLC) provided by the Reserve Bank to NABARD for short-term Seasonal Agricultural Operations, *etc.*, was to be increased by Rs.200 crore in 1997-98, taking the aggregate limit to Rs.5,700 crore.
		● Banks were required to assess working capital needs of borrowers on the basis of 20 per cent of the projected turnover of village, tiny and other SSI units having working capital limits up to Rs.2 crore as against Rs.1 crore earlier.
		● Out of the funds available to all segments of the SSI sector, banks were to ensure that 40 per cent be made available for units with investment in plant and machinery up to Rs.5 lakh, 20 per cent for units with investment between Rs.5 lakh and Rs.25 lakh and the remaining 40 per cent for other SSI units.
		● In order to introduce further flexibility in the credit delivery system in respect of working capital finance, it was decided that it would not be obligatory on the part of banks to form a consortium irrespective of

1997		II. INTERNAL DEBT MANAGEMENT POLICIES *(Contd.)*
Oct.	21	fully or partially would, however, rest with the Reserve Bank so as to exercise control over the total volume of issue of securities.
		● With a view to allowing all categories of FIIs registered with SEBI and approved by the Reserve Bank to invest in government dated securities, FIIs with a ceiling of 30 per cent investment in debt instruments were also permitted to invest in government dated securities within the ceiling of 30 per cent.
		● In order to promote the retail market segment and to provide greater liquidity to retail investors, banks were allowed to freely buy and sell Government securities on an outright basis, at prevailing market prices, without any restriction on the period between sale and purchase subject to the stipulation that banks should not undertake repos in government securities with non-bank clients, effective October 22, 1997.
Nov.	11	● On a review of guidelines for SDs in the government securities market, it was decided that the SDs would be provided liquidity support from the Reserve Bank through reverse repos in Central government dated securities and auction Treasury Bills up to 50 per cent of the outstanding stock (face value) in Government securities at the end of the previous working day. In view of the liquidity support from the Reserve Bank, SDs would not be permitted to borrow and lend in the call/notice money market.
	18	● On a review, the Reserve Bank finally granted approval to the following nine entities for registration as SDs viz., (1) DSP Merrill Lynch Ltd., (2) Ceat Financial Services Ltd., (3) Kotak Mahindra Capital Company (Unlimited), (4) Birla Global Finance Co. Ltd., (5) Hoare Govett (India) Securities Ltd., (6) Dil Vikas Finance Ltd., (7) SREI International Securities Ltd., (8) Tower Capital and Securities Pvt. Ltd. and (9) Tata Finance Securities Ltd. Besides, the Reserve Bank granted ‘in principle’ approval to two banks viz., Bank of America and Bank of Madura Ltd., to be accredited as SDs in government securities market.
	28	● The Reserve Bank announced a scheme of fixed rate repos in Government of India dated securities for parties holding SGL account and current account with the Reserve Bank in Mumbai commencing November 29, 1997 in order to attain greater manoeuvrability in short term liquidity management; this scheme would facilitate absorption of surplus liquidity in a more flexible way, from time to time at such volumes as may be necessary to bring about orderly conditions in both money and forex markets.
Dec.	19	● The Government of India announced for the first time the sale of Capital Indexed Bonds. The bond would have a five year tenure bearing interest at 6 per cent per annum and would be sold on tap from December 29, 1997. The bond would provide a complete hedge against inflation for the principal amount of investment to the investors; the inflation adjustment for the repayment of the principal would be on the basis of monthly average of the Wholesale Price Index (WPI) as worked out by the Reserve Bank on the basis of the WPI for all commodities issued by the Government of India on a weekly basis. The bond would also broadbase the investment opportunities of varied categories of investors, in particular of those averse to inflation risk.
1998		
Jan.	16	● As a sequel to the measures already undertaken due to the prevailing monetary and foreign exchange situation and the recent international developments, the Reserve Bank announced that PDs in government securities market would have access to the liquidity support on discretionary basis, subject to the Bank’s stipulation relating to their operations in the call money market.
Mar.	18	● SDs were extended the facility of ready forward transactions.
April	1	● The practice of notifying amounts in the case of all auctions including 364-day and 14-day Treasury Bills were introduced.
		● The non-competitive bids were kept outside the notified amount so as to provide certainty to the amounts acceptable from competitive bidders.
		● Interest rates on short falls in minimum balance and Ways and Means Advances (WMA) to both Central and state governments were linked to the Bank Rate and fixed at 9 per cent per annum. The interest rate on overdrafts accordingly was fixed at 11 per cent per annum.
	20	● FIIs with a ceiling of 30 per cent investment in debt instruments were permitted to invest in Government dated securities within the ceiling of 30 per cent with the amendments of SEBI’s FIIs Regulations, 1995.
	29	● The Monetary and Credit Policy for the first half of 1998-99 announced the following measures: (i) the practice of reverse repos with PDs in specified securities would be dispensed with and instead, liquidity support against the holdings of securities in Subsidiary General Ledger (SGL) accounts would be provided; (ii) 182-day Treasury Bills auctions on a fortnightly basis would be reintroduced; (iii) the periodicity of holding 364-day Treasury Bill auctions would be on a monthly basis instead of the present fortnightly auctions; (iv) FIIs would be permitted to purchase/sell Treasury Bills within the overall approved debt

1998		**I. MONETARY POLICY MEASURES** *(Concld.)*
June	**13**	● The Reserve Bank reduced the fixed repo rate by one percentage point from 6 per cent to 5 per cent, effective June 15, 1998.
	23	● The Working Group on 'Money Supply : Analytics and Methodology of Compilation' (Chairman : Dr. Y.V.Reddy) submitted its report to the Governor, Reserve Bank. The Working Group examined the analytical aspects of monetary survey in the light of the changing dimension of the financial sector consequent to the implementation of the financial sector reforms in India. The Working Group proposed (i) compilation of comprehensive analytical surveys of the Reserve Bank, commercial and co-operative banks and the organised financial sector at regular intervals; (ii) compilation of four monetary aggregates M0 on a weekly basis and M1, M2 and M3 on a fortnightly basis; (iii) compilation of three liquidity aggregates L1 and L2 on a monthly basis and L3 on a quarterly basis; and (iv) compilation of a comprehensive Financial Sector Survey (FSS) on a quarterly basis.
		II. INTERNAL DEBT MANAGEMENT POLICIES
1997		
April	**3**	● In pursuance of the "Guidelines for Satellite Dealers in the Government Securities Market" issued on December 31, 1996, the Reserve Bank announced preliminary approval to 14 entities for registration as SDs in the government securities market.
	7	● Three more entities were granted preliminary approval for registration as SDs.
	15	● Effective April 15, 1997, the rate of interest for liquidity support to PDs was linked to the Bank Rate in respect of Treasury Bills as well as Central Government dated securities.
		● In order to activate the repos market so that it serves as an equilibrating force between the money market and the securities market, (i) repo/reverse repo transactions among institutions were extended in respect of all Central government dated securities; and (ii) non-bank holders of SGL Account with the Reserve Bank were allowed entry into reverse repo (but not into repos) transactions with banks/PDs in Treasury Bills of all maturities and all Central government dated securities.
		● In order to further activate Treasury Bill market, particularly in the context of the discontinuance of 91-day tap Treasury Bills and the system of *ad hoc* Treasury Bills, Treasury Bills of various maturities were proposed to be issued to facilitate the cash management requirements of various segments of the economy.
	28	● The Government of India constituted a Monitoring Group on 'Cash and Debt Management of the Central Government' with representatives from the government and the Reserve Bank.
May	**21**	● The Reserve Bank announced a 'Scheme for Payment of Underwriting Fee to Primary Dealers' whereby a minimum of 25 per cent of each issue of Government of India dated securities and Treasury Bills would be offered for underwriting by PDs and the underwriting amount and fee would be determined on the basis of bids submitted and accepted by the Reserve Bank for each issue, effective June 2, 1997. The scheme replaced the system of payment of commission to PDs on purchases of government securities in the primary market, and also the system of fixing commitment percentages for devolvement on each PD.
June	**6**	● The Reserve Bank conducted the first auction of 14-day Treasury Bills.
July	**10**	● The Foreign Institutional Investors (FIIs) in the category of 100 per cent debt funds were permitted to invest in government dated securities.
Oct.	**21**	● In order to further help the cash management requirements of various segments of the economy, it was decided to introduce 28-day Treasury Bills on auction basis.
		● With a view to eliminating the problem of 'winners' curse' and broaden the market participation, it was proposed to introduce uniform price auction method in respect of 91-day Treasury Bill auctions, as an experimental measure.
		● It was decided to introduce the practice of notifying amounts in the case of all the auctions of dated securities and Treasury Bills, including 364-day and 14-day Treasury Bills.
		● Ready forward transactions were permitted in PSU bonds and private corporate debt securities which are held in dematerialised form in a depository and the transactions are done in recognised stock exchanges. This would initially be permitted among those who operate in ready forward in government securities. Further, the nature of participation of entities in repos in PSU bonds/debentures would be similar to their participation in government securities. This was aimed at expanding the base for repos market and in developing the secondary market.
		● It was decided that 'non-competitive' bids would henceforth be kept outside the notified amount in respect of 14-day and 91-day Treasury Bills auctions. The discretion to accept 'non-competitive' bids

1998		I. MONETARY POLICY MEASURES *(Contd.)*
Jan.	**16**	effective fortnight beginning January 17, 1998; (v) the facility to provide liquidity support to Primary Dealers in Government securities at Bank Rate through reverse repo with the Reserve Bank would be available at Bank Rate on discretionary basis, subject to the Reserve Bank stipulations relating to their operations in the call money market; and (vi) effective January 17, 1998, the interest rate surcharge on bank credit for imports (excluding export related imports) was raised from 15 per cent of the lending rate to 30 per cent.
		● The Reserve Bank raised the repo rate by 2 percentage points to 9 per cent, effective January 17, 1998.
Mar.	**17**	● The Reserve Bank reduced the repo rate by one percentage point to 8.0 per cent, effective March 18, 1998.
	18	● On a review of the prevailing monetary and credit situation, the Bank Rate was reduced by 0.5 percentage point to 10.5 per cent per annum, effective March 19, 1998.
	23	● CRR to be maintained by scheduled commercial banks (excluding RRBs) was reduced by 0.5 percentage point from 10.5 per cent to 10.0 per cent of their net demand and time liabilities (excluding liabilities subject to zero CRR prescription) in two phases of 0.25 percentage point, effective fortnights beginning from March 28, 1998 and April 11, 1998, respectively, augmenting the resources of banks by about Rs.2,600 crore (Rs.1,300 crore for each phase of reduction).
April	**2**	● The Reserve Bank reduced the Bank Rate by one half of one percentage point, i.e. from 10.5 per cent per annum to 10.0 per cent per annum, effective April 3, 1998.
	3	● The Reserve Bank reduced the fixed repo rate by one percentage point to 7 per cent.
	29	● The Bank Rate was further reduced by one percentage point to 9 per cent.
		● Export credit refinance was restored to 100 per cent (as against the prevailing 50 per cent) of the increase in outstanding export credit eligible for refinance over the level of such credit as on February 16, 1996, effective fortnight beginning May 9, 1998.
		● Interest rate on pre-shipment export credit up to 180 days was reduced from 12 per cent to 11 per cent.
		● Interest rate against incentives receivable from government covered by ECGC guarantee in respect of pre-shipment credit up to 90 days was reduced from the existing 12 per cent to 11 per cent.
		● With a view towards developing an efficient money market (i) the minimum size of operation per transaction by entities routing their lending through PDs in the call money market was reduced from Rs.5 crore to Rs.3 crore and (ii) the minimum lock in period for CDs and units of MMMFs was reduced from 30 days to 15 days, effective May 9, 1998.
		● It was proposed to continue the process of widening and deepening the financial markets. Banks were provided greater flexibility in regard to certain aspects pertaining to deposits and loans : (i) the minimum period of maturity of term deposits was reduced from 30 days to 15 days; (ii) banks were permitted to determine their own penal interest rates for premature withdrawal of domestic term deposits and NRE deposits as in the case of FCNR(B) deposits. This would apply in respect of fresh deposits and renewal of existing deposits. Banks would ensure that the depositors are aware of the applicable penal rate along with the deposit rate; (iii) the restriction on banks that they must offer the same rate on deposits of the same maturity irrespective of the size of such deposits was removed in case of deposits of Rs.15 lakh and above and bank boards were allowed to lay down the policy in this regard; (iv) in order to facilitate the flow of credit to small borrowings (up to Rs.2 lakh), it was proposed that the interest rates on loans up to Rs.2 lakh were not to exceed the PLR of the concerned bank, instead of a specific uniform rate for all banks; and (v) all advances against term deposits would be at an interest rate equal to the PLR or less.
		● Taking into account the international developments which reiterated the problems related to short-term external liabilities and large unhedged positions of corporates in some East Asian countries and to encourage the banks to mobilise long-term deposits, while simultaneously discouraging them to mobilise short-term deposits, (i) the interest rate ceiling on FCNR(B) deposits of one year and above was increased by 50 basis points and that on such deposits below one year was reduced by 25 basis points; and (ii) banks were permitted to fix their own overdue interest rates in respect of FCNR(B) and NRE deposits, subject to these deposits being renewed.
	30	● The fixed repo rate was reduced by one percentage point to 6 per cent.
May	**18**	● The Reserve Bank decided to release the remaining two-thirds of the balances impounded between May 4, 1991 and April 17, 1992 under 10 per cent incremental CRR on NDTL, in twelve equal instalments over the period May 1998 to March 1999. It may be mentioned that the first one-third of the amount impounded was released in three equal instalments in October 1992.
June	**11**	● To enable exporters to avail of export credit in foreign currency more effectively at internationally competitive rates, banks were to charge a spread of not more than 1.5 percentage points over LIBOR.

1997		I. MONETARY POLICY MEASURES *(Contd.)*
Oct.	21	corporate bonds and debentures with a residual maturity of up to one year, subject to the ceiling of 3 per cent of the resources of the MMMF, which would henceforth also include corporate bonds/debentures, apart from CPs.
Nov.	26	● In order to expedite the realisation of export proceeds, as a temporary measure, effective November 27, 1997, the interest rate on post-shipment rupee export credit on usance bills for total period beyond 90 days and up to six months from the date of shipment was increased from 13.0 per cent per annum to 15.0 per cent per annum; this would be applicable only from the period beyond 90 days, and *not* from the date of advance.
	28	● Taking into account the overall liquidity position and the developments in the financial markets, in particular, the possible spill-over effects on the foreign exchange markets, it was decided to defer the phased reduction in CRR as envisaged in the monetary and credit policy for the second half of 1997-98, that were to be effected from the fortnight beginning December 20, 1997.
		● In partial modification of the announcement on November 26, 1997, effective December 15, 1997, the interest rate of 15.0 per cent per annum on post-shipment rupee export credit on usance bills for the period beyond 90 days and up to six months from the date of shipment would be applicable from the date of advance and *not* for the period beyond 90 days only.
		● The Reserve Bank announced a scheme of fixed rate repos commencing on November 29, 1997. The repo rate was fixed at 4.5 per cent.
Dec.	2	● Taking into account the developments in the domestic and the forex markets, the CRR on NDTL of scheduled commercial banks (excluding RRBs) was raised by 0.5 percentage point to 10.0 per cent, effective fortnight beginning December 6, 1997. Further, the schedule of reductions in CRR announced on November 28, 1997 was kept in abeyance.
		● The incremental CRR of 10.0 per cent on NRE and NRNR deposit schemes, imposed on the increase in the level outstanding as on April 11, 1997, was removed, effective fortnight beginning December 6, 1997. The impounded amount was released on December 6, 1997.
	3	● The Reserve Bank raised the repo rate from 4.5 per cent to 5.0 per cent.
	4	● The Reserve Bank raised the repo rate by 1.5 percentage points to 6.5 per cent.
	11	● The Reserve Bank raised the repo rate by 0.5 percentage point to 7 per cent.
	17	● Effective December 18, 1997, banks were to charge a minimum interest at 20.0 per cent per annum, on overdue export bills, from the date of advance. In the case of demand bills and short-term usance bills, the higher rate of interest would not be applicable where the total period of credit including the period of overdue is less than one month from the date of bill/negotiation. Earlier, banks were free to charge any rate of interest on overdue export bills which were not realised within the due date.
		● An interest rate surcharge of 15.0 per cent of the lending rate on bank credit for imports was introduced, effective December 18, 1997; this surcharge would not be applicable in respect of bank credit for export related imports and certain bulk imports.
	31	● Effective January 1, 1998, the interest rate on post-shipment rupee export credit beyond 90 days and up to 6 months was reduced from 15.0 per cent to 13.0 per cent, thereby restoring the position prevailing as on November 26, 1997. Further, the interest rate of '13.0 per cent per annum' would be applicable only for a period beyond 90 days, and not from the date of advance.
		● The Reserve Bank declared that (i) the 20 per cent interest on overdue export bills announced on December 17, 1997 would apply only for the overdue period and not from the date of advance; and (ii) the higher rate of 20 per cent would not be applicable to overdues in respect of certain chronic cases where overdues existed as on July 1, 1997. Both these measures were effective, retrospectively, from December 18, 1997.
1998		
Jan.	16	● On a review of the monetary and foreign exchange situation and the international developments, the following measures were undertaken by the Reserve Bank: (i) the Bank Rate was raised by two percentage points to 11.0 per cent per annum, effective January 17, 1998; (ii) CRR was raised by 0.5 percentage point to 10.5 per cent of NDTL of scheduled commercial banks (excluding RRBs), effective fortnight beginning January 17, 1998 which impounded the resources of scheduled commercial banks by about Rs.2,500 crore; (iii) effective fortnight beginning January 17, 1998, all scheduled commercial banks were to be provided export credit refinance to the extent of 50 per cent of the increase in outstanding export credit eligible for refinance (as against 100 per cent earlier) over the level of such credit as on February 16, 1996; (iv) all scheduled commercial banks were to be provided General Refinance equivalent to 0.25 per cent of fortnightly average outstanding aggregate deposits in 1996-97 (as against one per cent earlier),

1997		I. MONETARY POLICY MEASURES *(Contd.)*
Oct.	21	stipulated under Section 24 of Banking Regulation Act, 1949. ● With a view to giving banks full freedom to determine the interest rates on term deposits, the deposit rates for deposits of 30 days and up to one year were deregulated and delinked from the Bank Rate, effective October 22, 1997. Accordingly, banks were permitted to determine the interest rates they offer on such deposits of 30 days and over after obtaining prior approval from their respective Boards. Consequently, banks could offer a fixed rate on deposits or a floating rate clearly linked to an anchor rate. The minimum maturity period of 30 days for term deposits remained unchanged. ● With a view to providing further flexibility to banks in respect of Foreign Currency Non-Resident (Banks) [FCNR(B)] deposits, instead of ceiling interest rates prescribed by the Reserve Bank from time to time, the ceiling rates would be the relevant LIBOR/swap rate prevailing on the last working day of the previous week for relevant maturity and currency. Subject to the above, banks were free to offer either fixed or floating rate of interest on such deposits. ● In order to rationalise interest rates on rupee loans out of/against FCNR(B) deposits the interest rates charged on such lendings out of/against FCNR(B) deposits were made consistent with lending rates for rupee loans in general. ● Effective October 22, 1997, the lending rate was stipulated at 'not exceeding 13.5 per cent per annum' for credit limits of over Rs.25,000 and up to Rs.2 lakh instead of the prevailing fixed rate of 13.5 per cent per annum, in view of the recent movements in interest rates. ● Banks were permitted to announce, with approval of their Boards, separate Prime Term Lending Rates (PTLRs) in respect of term loans of 3 years and above. ● The interest rates on pre-shipment rupee export credit were reduced by one percentage point across-the-board, effective October 22, 1997. Accordingly, interest rates on pre-shipment rupee export credit up to 180 days was reduced to 12.0 per cent per annum and the interest rate on such credit beyond 180 days and up to 270 days was reduced to 14.0 per cent per annum. Further, the interest rate applicable in respect of pre-shipment credit up to 90 days against incentives receivable from Government covered by ECGC guarantee was also reduced to 12.0 per cent. ● Effective October 22, 1997, the interest rates applicable in respect of post-shipment rupee export credit (up to 90 days) against (i) undrawn balance, (ii) retention money (for supplies portion only) payable within one year from the date of shipment and (iii) incentives receivable from the Government covered by ECGC guarantee, was reduced from 13.0 per cent per annum to 'not exceeding 11.0 per cent per annum'. Moreover, in respect of post-shipment rupee export credit for the period beyond 90 days and up to six months, banks were to charge an (unrevised) interest rate of 13.0 per cent per annum but only for the period beyond 90 days and not from the date of advance as earlier. ● In order to enable larger flow of resources to the housing sector and as part of the process of deregulating interest rates, effective October 22, 1997, banks were allowed to charge interest at different rates in respect of finance to housing finance intermediary agencies provided the rates were below the appropriate PLR rate; the earlier prescription in respect of such credit was 1.5 percentage points below each bank's PLR. ● Since levy sugar is valued at the Government notified price and is not subject to price fluctuations, it was decided to stipulate separate margins on levy and freesale sugar stocks. Accordingly, effective October 22, 1997, the minimum margin on levy sugar was reduced to 10.0 per cent while the freesale sugar would continue to be subject to a margin of 15.0 per cent. ● A level of 80 per cent was prescribed for the 'loan component' in respect of borrowers with working capital credit limits of Rs.10 crore or above. It was also indicated that no further increase in loan component was intended. ● With a view to ensuring prompt settlement of dues of SSI units, as also encouraging 'bills' culture, banks were to ensure that effective January 1, 1998, not less than 25 per cent of the total inland credit purchases of the corporate borrowers should be through bills drawn on them by concerned sellers. ● Banks were permitted to sanction bridge loans to companies against expected equity flows/issues for a period up to one year. The guidelines for sanction of bridge loans should be approved by the banks' Boards. The total amount of sanctions under the bridge loans were to be accommodated within the ceiling of 5 per cent of incremental deposits prescribed for banks' investments in shares. ● With a view to further developing the money market, the following measures were taken : (i) Entities having bulk lendable resources were previously permitted to access the call/notice money transactions through PDs. To provide more flexibility, it was decided to reduce the minimum size of operation per transaction from Rs.10 crore to Rs.5 crore; (ii) the minimum size of issue of CDs to a single investor was reduced from Rs.10 lakh to Rs.5 lakh. CDs above Rs.5 lakh would be in multiples of Rs.1 lakh; and (iii) with a view to making the scheme of MMMF more flexible, MMMFs were permitted to invest in rated

1997		**I. MONETARY POLICY MEASURES** *(Contd.)*
April	**15**	● To further develop the money market and make it more efficient, a Standing Advisory Committee on Money Market (Chairman: Dr.Y.V. Reddy) was set up on April 23, 1997, to advise the Reserve Bank.
		● Effective fortnight beginning April 26, 1997, the facility of routing through call/notice money transactions to entities, as lenders, was extended to all the Primary Dealers as against only through the DFHI earlier. The minimum size of operation per transaction was also reduced from Rs.20 crore to Rs.10 crore.
		● The minimum size of issue of Certificates of Deposit (CDs) to a single investor was reduced from Rs.25 lakh to Rs.10 lakh. The additional amount would be issued in multiples of Rs.5 lakh.
		● The minimum maturity of Commercial Paper (CP) was brought down from 3 months to 30 days.
	25	● It was clarified that in view of the multiple prescriptions on different categories of liabilities, including prescription of a zero reserve requirement on certain liabilities, effective CRR and SLR maintained by scheduled commercial banks on total demand and time liabilities, including inter bank liabilities, were not to be less than 3 per cent and 25 per cent, respectively.
June	**25**	● With a view to aligning the Bank Rate to the changing conditions, effective June 26, 1997, the Bank Rate was reduced by one percentage point from '11.0 per cent per annum' to '10.0 per cent per annum'. All interest rates on advances from the Reserve Bank such as export credit refinance and general refinance to banks which are linked to the Bank Rate were revised downwards.
		● Consequent upon the reduction in the Bank Rate, effective June 26, 1997, the interest rates offered on domestic term deposits of 30 days and up to one year and also on term deposits under NRE Accounts Scheme with a maturity of 6 months and up to one year were reduced to 'not exceeding 8.0 per cent per annum' from the earlier level of 'not exceeding 9.0 per cent per annum'. Banks were advised to obtain prior approval of their respective Boards for the deposit rates they offer on various maturities in respect of domestic term deposits as well as NRE term deposits.
		● Effective June 26, 1997, interest rates on post-shipment rupee export credit was reduced to 'not exceeding 12.0 per cent per annum' for period up to 90 days and to '14.0 per cent per annum' for period beyond 90 days and up to 180 days from the earlier level of 'not exceeding 13.0 per cent per annum' and '15.0 per cent per annum', respectively.
Sept.	**12**	● With a view to providing greater flexibility to banks in mobilising non-resident deposits, banks including primary co-operative banks which are ADs in foreign exchange, were given freedom to fix interest rates on NRE term deposits of 6 months and over, effective September 13, 1997, as against one year and above, earlier.
		● With a view to providing incentive for accelerated realisation of export proceeds, effective September 13, 1997, interest rates on post-shipment rupee export credit were reduced to 'not exceeding 11 per cent per annum' for period up to 90 days and to '13.0 per cent per annum' for period beyond 90 days and up to six months from the earlier levels of 'not exceeding 12.0 per cent per annum' and '14.0 per cent per annum', respectively. Further, as a temporary measure, in respect of post-shipment rupee export credit beyond 90 days and up to six months from the date of shipment, the rate of interest of '13.0 per cent per annum' would be applicable from the date of advance.
Oct.	**21**	● Effective October 22, 1997, the Bank Rate was reduced by one percentage point to '9.0 per cent per annum'. All interest rates on advances from the Reserve Bank such as export credit refinance and general refinance to banks which are specifically linked to the Bank Rate were revised.
		● In accordance with the stance of monetary policy of phased reduction in statutory pre-emption of banks' resources, it was decided to reduce the CRR to be maintained by scheduled commercial banks (excluding Regional Rural Banks) by 2.0 percentage points from 10.0 per cent to 8.0 per cent in eight phases of 0.25 percentage point each, effective fortnights beginning from : October 25, 1997, November 22, 1997, December 20, 1997, January 17, 1998, February 14, 1998, February 28, 1998, March 14, 1998 and March 28, 1998 respectively. This measure would have augmented the lendable resources of banks by about Rs.9,600 crore (Rs.1,200 crore for each phase of reduction).
		● In order to rationalise the system of payment of interest on eligible CRR balances under the two-tier formula, effective fortnight beginning October 25, 1997, banks would be paid interest at the rate of 4.0 per cent per annum on all eligible cash balances maintained with the Reserve Bank under proviso to Section 42(1) and Section 42(1A) of the Reserve Bank of India Act, 1934; this measure would improve the return on cash balances of the banks since the revised rate would be higher than the earlier effective rate of about 3.5 per cent.
		● With a view to rationalising the multiple prescriptions of SLR by merging them into a single prescription, effective fortnight beginning October 25, 1997, all scheduled commercial banks were required to maintain a uniform SLR of 25 per cent on their entire net demand and time liabilities, which is the minimum

ANNEXURE

CHRONOLOGY OF MAJOR POLICY MEASURES : APRIL 1997 – JULY 1998

Date of Announcement		POLICY MEASURES
		I. MONETARY POLICY MEASURES
1997		
April	**7**	• On a review of emergent price-output developments, bank advances against wheat were brought back under selective credit control, effective April 8, 1997, for a period of three months. The minimum margin on advances against stocks for mills/processing units, and warehouse receipts were fixed at 45 per cent, and in the case of 'others' (including mainly traders) at 60 per cent. The level of credit ceiling was fixed at 100 per cent of the peak level of credit maintained by a party in any of the three years ended 1995-96 (November-October).
	15	• With a view to bringing all liabilities to the public under reserve requirements, effective fortnight beginning April 26, 1997, all scheduled commercial banks (excluding RRBs) were required to maintain a CRR of 10 per cent on the increase in liabilities under FCNR(B), NRE and NRNR Accounts Schemes over the level outstanding as on April 11, 1997.
		• With a view to facilitating the development of a more realistic rupee yield curve and term money market, effective fortnight beginning April 26, 1997, all scheduled commercial banks (excluding RRBs) were exempted from maintenance of CRR of 10 per cent as well as SLR on liabilities to banking system.
		• In view of the changes in the various economic parameters and in order to make the Bank Rate an effective signal rate as well as a reference rate, effective April 16, 1997, the Bank Rate was reduced by one percentage point to '11 per cent per annum'. Interest rates on certain categories of accommodation from the Reserve Bank became linked to the Bank Rate.
		• Effective April 16, 1997, the ceiling on interest rate on domestic term deposits of maturity of 30 days and up to one year was reduced from 10.0 per cent per annum to 'not exceeding Bank Rate minus two percentage points per annum' (9.0 per cent). Banks were advised to obtain prior approval of their respective Boards for the deposit rates they offer on various maturities in respect of domestic term deposits.
		• With a view to bringing about a better alignment of the interest rate structure of term deposits under NRE Accounts with that on domestic term deposits, effective April 16, 1997, (i) the interest rates on term deposits under NRE Accounts of over one year were freed and (ii) the interest rate offered on NRE term deposits of 6 months and up to one year was prescribed at 'not exceeding Bank Rate *minus* 2 percentage points' which worked out to 'not exceeding 9.0 per cent per annum'. Banks were advised to obtain prior approval of their respective Boards for the deposit rates they offer on various maturities in respect of NRE term deposits.
		• With a view to giving more flexibility, banks were permitted to determine interest rates on FCNR(B) deposits subject to ceilings prescribed by the Reserve Bank from time to time.
		• In the context of a move from sector-specific refinance facilities to a general refinance facility and also with a view to enabling Bank Rate to emerge as a reference rate, effective fortnight beginning April 26, 1997, a General Refinance Facility was introduced under which all scheduled commercial banks (excluding RRBs) would be provided General Refinance equivalent to 1.0 per cent of each bank's fortnightly average outstanding aggregate deposits in 1996-97 in two blocks of four weeks each at Bank Rate for the first four weeks and at Bank Rate *plus* one percentage point for the second block of four weeks.
		• As a move towards further rationalisation of export credit refinance to banks and in the context of introduction of a new General Refinance Facility, effective fortnight beginning April 26, 1997, the base level export credit refinance limit at 20 per cent of export credit as on February 16, 1996, was withdrawn and therefore scheduled commercial banks would be provided export credit refinance only to the extent of 100 per cent of the increase in outstanding export credit eligible for refinance over the level of such credit as on February 16, 1996. The rate of interest on export credit refinance was retained unchanged at 11 per cent but expressed as 'at Bank Rate'.
		• As part of a move to giving general operational freedom to banks and also taking into consideration the fact that some banks had shown willingness to extend post-shipment export credit at lower interest rates if export proceeds are realised in shorter periods, effective April 16, 1997, the interest rates on post-shipment rupee export credit up to 90 days was changed from 13.0 per cent per annum to 'not exceeding 13.0 per cent per annum'.