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HIGHLIGHTS

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RBI GUIDELINES: AUGUST 13

RUPEE EXPORT CREDIT - INTEREST SUBVENTION

As per extant guidelines, interest subvention of 2% has been extended w.e.f. 01.04.2013 to 31.03.2014 on pre and post shipment rupee export credit for certain employment oriented export sectors. The Government of India has decided to increase the rate of interest subvention on the existing sectors from the present 2% to 3% with effect from August 1, 2013. Accordingly, banks may reduce the interest rate chargeable to the exporters as per Base Rate system in the existing sectors eligible for export credit subvention by the amount of subvention available subject to a floor rate of 7%.

CRR/SLR on FCNR(B)/NRE deposits

At present, banks are required to include all Foreign Currency Non-Resident Bank [FCNR (B)] and Non-Resident (External) Rupee (NRE) deposit liabilities for computation of Net Demand and Time Liabilities (NDTL) and for maintenance of CRR and SLR. RBI has now decided that with effect from fortnight beginning August 24, 2013, incremental FCNR (B) deposits as also NRE deposits with reference base date of July 26, 2013, and having maturity of three years and above, mobilised by banks will be exempt from maintenance of CRR and SLR. For example, if a bank had a total FCNR (B) deposit base of say USD 100 as on the base date, and mobilises an incremental deposit of say USD 20, that portion of USD 20 which has a maturity of 3 years and above will not be part of NDTL and will qualify for CRR and SLR exemption. The same principle will apply for calculation of NRE deposits for exemption from maintenance of CRR/SLR requirements. However, any transfer from Non-Resident (Ordinary) (NRO) accounts to NRE accounts shall not qualify for such exemptions.

Further, advances extended in India against the incremental FCNR (B) / NRE deposits qualifying for exemption from CRR/SLR requirements as above, will also be excluded from Adjusted Net Bank Credit for computation of priority sector lending targets.

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits

As per extant guidelines, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits. However, in order to pass on the benefit of exemption provided on incremental NRE deposits with maturity of 3 years and above from CRR/ SLR requirements, RBI (on 14.8.2013)has decided to give banks the freedom to offer interest rates without any ceiling on NRE deposits with maturity of 3 years and above. The extant ceiling on NRO Accounts shall continue. These instructions will be valid up to November 30, 2013, subject to review.

Interest Rates on FCNR(B) Deposits

RBI has decided that with effect from the close of business in India as on August 14, 2013, the interest rate ceiling on FCNR(B) Deposits will be as under:

Maturity Period	Existing	Revised
1 year to less than 3 years	LIBOR/Swap plus 200 basis points	No change
3 - 5 years	LIBOR/Swap plus 300 basis points	LIBOR/ SWAP plus 400 basis points

On floating rate deposits, interest shall be paid within the ceiling of swap rates for the respective currency/maturity plus 200 bps/ 400 bps as the case may be. For floating rate deposits, the interest reset period shall be six months. These instructions will be valid up to November 30, 2013, subject to review.

LIBERALISED REMITTANCE SCHEME FOR RESIDENT INDIVIDUALS

As per extant guidelines, any resident individual is permitted to repatriate up to USD 200,000 per financial year for any Capital account or current account transaction. On a review of the scheme, RBI has decided to reduce the existing limit of USD 200,000 per financial year to USD 75,000 per financial year (April - March) with immediate effect. Accordingly, AD Category – I banks may now allow remittance up to USD 75,000 per financial year, under the scheme, for any permitted current or capital account transaction or a combination of both. Further, the following changes / clarifications in regard to the remittances under LRS will come into effect from 14 August, 2013:

1. The scheme should no longer be used for acquisition of immovable property, directly or indirectly, outside India. Therefore, banks may henceforth not allow any remittances under the LRS Scheme for acquisition of immovable property outside India.
2. The scheme should not be used for making remittances for any prohibited or illegal activities such as margin trading, lottery etc., as hitherto.
3. Resident individuals have now been allowed to set up Joint Ventures (JV) / Wholly Owned Subsidiaries (WOS) outside India for bonafide business activities outside India within the limit of USD 75,000 with effect from August 5, 2013 and subject to the terms and conditions for such investments.

GIFTS AND LOANS IN RUPEES BY RESIDENT INDIVIDUALS TO NRI CLOSE RELATIVES

As per RBI circular dated Dec 20, 2006 and Sept 26, 2007, the remittances towards gift and donation by a resident individual was included in the Liberalised Remittance Scheme. In Sept 2011, RBI decided to permit a resident individual to make a rupee gift to a NRI/PIO who is a close relative of the resident individual by way of crossed cheque /electronic transfer. The amount should be credited to the Non-Resident (Ordinary) Rupee Account (NRO) a/c of the NRI / PIO. The gift amount would be within the overall limit of USD 200,000 per financial year as permitted under the Liberalised Remittance Scheme (LRS) for a resident individual.

Further, RBI decided to permit a resident individual to lend to a Non resident Indian (NRI)/ Person of Indian Origin (PIO) close relative by way of crossed cheque /electronic transfer, subject to the following conditions: (i) the loan is free of interest and the minimum maturity of the loan is one year; (ii) the loan amount should be within the overall limit under the Liberalised Remittance Scheme of USD 200,000 per financial year available for a resident individual; (iii) the loan shall be utilised for meeting the borrower's personal requirements or for his own business purposes in India; (iv) The loan amount should be credited to the NRO a/c of the NRI /PIO. Credit of such loan amount may be treated as an eligible credit to NRO a/c; (v) the loan amount shall not be remitted outside India; and (vi) repayment of loan shall be made by way of inward remittances through normal banking channels or by debit to the Non-resident Ordinary (NRO) / Non-resident External (NRE) / Foreign Currency Non-resident (FCNR) account of the borrower or out of the sale proceeds of the shares or securities or immovable property against which such loan was granted.

The limit for gift in Rupees by Resident Individuals to NRI close relatives and loans in Rupees by resident individuals to NRI close relatives within Liberalised Remittance Scheme has been reduced by RBI from USD 200,000 to USD 75,000 per financial year.

OVERSEAS DIRECT INVESTMENTS

As per extant provisions under FEMA, on overseas direct investments, the total overseas direct investment (ODI) of an Indian Party in all its Joint Ventures (JVs) and / or Wholly Owned Subsidiaries (WOSs) abroad engaged in any bonafide business activity should not exceed 400 per cent of the net worth of the Indian Party as on the date of the last audited balance sheet under the Automatic Route. RBI has now decided as under:

(a) to reduce the existing limit of 400 per cent of the net worth of the Indian Party to 100 per cent of its net worth under the Automatic Route. Accordingly, banks may allow overseas direct investments under the Automatic Route up to 100 per cent of the net worth of the Indian party, as on the date of the last audited balance sheet.

(b) to reduce the existing limit of 400 per cent of the net worth of the Indian company, investing in the overseas unincorporated entities in the energy and natural resources sectors, under the automatic route, to 100 per cent of the net worth of the Indian company investing in the overseas unincorporated entities in the energy and natural resources sectors, as on the date of last audited balance sheet.

(c) Any ODI in excess of 100% of the net worth in both cases shall be considered under the Approval Route by RBI.

(d) In respect of the Navaratna Public Sector Undertakings (PSUs), ONGC Videsh Limited (OVL) and Oil India Ltd (OIL), the extant provision for investing in overseas unincorporated entities and the overseas incorporated entities in the oil sector (i.e., for exploration and drilling for oil and natural gas, etc.), which are duly approved by the Government of India, without any limits under the automatic route, would however continue as hitherto.

(d) The above provisions shall come into effect with effect from August 14, 2013 and would apply to all fresh Overseas Direct Investment proposals on a prospective basis but would not apply to the existing JV/WOS set up under the extant regulations.

DISTRIBUTION OF BANKNOTES AND COINS REVIEW OF INCENTIVES AND PENALTIES

As per extant guidelines, for exchange of soiled notes over the counter at bank branches, RBI provides an incentive of Rs 1.00 per packet for exchange of soiled notes in denominations up to Rs 50/-. This rate has been revised from Rs 1 to Rs 2 per packet.

Further, for installation of Machines which extend cash related retail services to the public like – (i) Coin Pouch Vending Machines; (ii) Note Packet Vending machines; (iii) Cash Acceptors; (iv) Cash Recyclers; (v) Desktop banknote authenticating machines; (vi) ATMs dispensing lower denomination notes, RBI will provide 50% of cost of installation in urban / metropolitan areas and 75% in semi-urban and rural areas

For installation of Note Sorting Machines (NSMs), incentives will be provided only to RRBs and UCBs at the rate of 50% of cost of installation in urban / metropolitan areas and 75% in semi-urban and rural areas.

UNIFORM HOLIDAY CALENDAR UNDER CHEQUE TRUNCATION SYSTEM (CTS)

Grid-based Cheque Truncation System (CTS) has been launched in Chennai and Mumbai covering several States/Union territories with the objective of streamlining the procedures in cheque clearing system. All the States/Union Territories covered by the above grid follow different schedule of holidays declared under Negotiable Instruments Act 1881 by the respective Governments. As local clearing houses are gradually being subsumed into the CTS, there is a need to devise a policy of uniform holidays so as to ensure the smooth functioning of grid-based CTS operations.

The practice of uniform holidays is already in place since 2010 for the CTS operations at New Delhi which encompasses bank branches in New Delhi as well as adjacent states. Further, the concept of uniform holidays has also been implemented for RTGS/NEFT/NECS since 2008. These centralised payment systems are functional on days when one of the four metro cities is observing working day, irrespective of holidays at other locations. Bank branches participating in such systems are deploying requisite manpower for facilitating transactions on such days.

Under grid-based CTS clearing, all cheques drawn on bank branches falling in the grid jurisdiction are treated and cleared as local cheques on T+1 basis. As such, the uniform holiday arrangement will further enhance the customer service in banks through faster realisation of cheques even on holidays in respective states. Therefore, RBI has decided to put in place the uniform holiday arrangement at the three CTS locations with effect from October 7, 2013:

(1) The CTS centers in New Delhi, Chennai and Mumbai will adopt RTGS holidays as uniform holidays for the respective grid.

(2) Additionally, CTS operations will be closed on such days when all the participating states in the grid are observing holidays, even though RTGS is working on such days.

(3) The President of the respective CTS location will notify the list of such uniform holidays well in advance to enable the participating banks to put in place inward clearing processing infrastructure at the grid location.

Under CTS, inward clearing is generally processed in a centralised manner by banks at the CTS location. However, in exceptional cases, where the reference to base branch is required and the base branch is closed on account of local holiday, the drawee bank at the grid location may return the instrument to the presenting bank under return reason code 88 as enumerated in Uniform Regulations and Rules for Bankers' Clearing Houses with the description "need reference to the drawee branch which is closed on account of local holidays/issues". Further, when banks are unable to process the inward clearing pertaining to specific locations due to exceptional circumstances, they can approach the President of the Clearing House at CTS location for extension of return / blocking the presentation drawn on such locations.

ATM TRANSACTIONS

To improve customer service, RBI has advised following for compliance by banks:

(1) The message regarding non-availability of cash in ATMs should be displayed before the transaction is initiated by the customer. Banks may exercise option to display such notices either on screen or in some other way.

(2) The ATM ID may be displayed clearly in the ATM premises to enable a customer to quote the same while making a complaint / suggestion.

(3) Banks should make available the forms for lodging ATM complaints within the ATM premises and also display the name and phone number of the officials with whom the complaint can be lodged. This will help in avoiding delays in lodging complaints.

(4) Banks may make available sufficient toll-free phone numbers for lodging complaints / reporting and blocking lost cards to avoid delays and also attend the requests on priority. Local helpline numbers (city-wise / centre wise) should also be increased and should be prominently displayed in the ATM premises / banks' web-site.

(5) Banks may proactively register the mobile numbers / e-mail IDs of their customers for sending alerts and also educate their customers to intimate changes, if any. A time-bound programme for updation of mobile number and or e-mail of all existing accounts may be drawn up. These details should be updated periodically along with KYC details.

(6) To prevent fraudulent withdrawal at ATMs, there should be requirement of PIN entry for each and every transaction, including balance enquiry transactions. Banks already have in place time limits for completion of transactions at ATMs. However, as an additional safety measure, the time out sessions should be enabled for all screens / stages of ATM transaction keeping in view the time required for such functions in normal course. Bank may ensure that no time extensions are allowed beyond a reasonable limit at any stage of the transaction.

(7) Creating awareness about electronic banking products is of utmost importance to prevent frauds taking place in this field and also to make customers aware of their rights and responsibilities. In view of changes taking place in this field, banks, in collaboration with Indian Banks' Association, may run advertisement campaign in both, print and electronic media at regular intervals.

INVESTMENT PORTFOLIO OF BANKS CLASSIFICATION, VALUATION AND PROVISIONING

As per guidelines issued by RBI vide circular dated May 15, 2013, banks are permitted to exceed the limit of 25 per cent of total investments under the Held to Maturity (HTM) category provided - (a) the excess comprises only SLR securities, and (b) the total SLR securities held in the HTM category is not more than 24.50 per cent by end June 2013, 24.00 per cent by end September 2013, 23.50 per cent by end December 2013, and 23.00 per cent by end March 2014 of their Demand and Time Liabilities (DTL) as on the last Friday of the second preceding fortnight.

The recent hardening of long term yields has resulted in banks incurring large mark-to-market (MTM) losses in their investment portfolio. Since these MTM losses are partly resulting from abnormal market conditions and could be recouped going forward, RBI has decided to provide the following prudential adjustments for a limited period:

(1) The requirement of bringing down their SLR securities in HTM category from 25 per cent to 23 per cent of their DTL by March 2014 has been relaxed and banks have been allowed to retain SLR holdings in HTM category at 24.50 per cent of their NDTL. Banks are, therefore, permitted to exceed the limit of 25.00 per cent of total investments under the HTM category provided the excess comprises only SLR securities and the total SLR securities held in the HTM category is not more than 24.50 per cent of their NDTL as on last Friday of the second preceding fortnight.

(2) As per extant instructions, banks may shift investments to HTM with the approval of the Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. As a one-time measure, RBI has permitted banks to transfer SLR securities from AFS/HFT to HTM category up to the limit of 24.50 per cent of NDTL. Such transfer of securities from AFS/HFT category to HTM category should be made at the lower of book value or market value. Banks have the option of valuing these securities for the purpose of such transfer as at the close of business of July 15, 2013 and depreciation, if any, should be provided for. If banks choose to transfer securities as above, the transfers must be done at the earliest but not later than September 30, 2013. This transfer must be out of the outstanding position of AFS/HFT securities as at the close of business of August 23, 2013 up to the limit of 24.50 per cent of NDTL (i.e. NDTL as on July 26, 2013 applicable for maintenance of SLR for August 23, 2013). Such one-time transfer from AFS/HFT would be excluded from 5% cap prescribed for value of sales and transfers of securities to/ from HTM category as provided earlier.

(3) Banks are required to periodically value their AFS and HFT portfolio and provide for net depreciation. Banks will now have the option of distributing the net depreciation on the entire AFS and HFT portfolios on each of the valuation dates in the current financial year in equal instalments during the financial year 2013-14.

INVESTMENTS BY NON-RESIDENT INDIANS UNDER PORTFOLIO INVESTMENT SCHEME (PIS)

As per extant guidelines, NRIs can invest under PIS on repatriation and/or non-repatriation basis in shares and convertible debentures of listed Indian companies on a recognized stock exchange in India through a registered stock broker. Further, NRIs may purchase and sell shares/convertible debentures under the PIS through a branch designated by an Authorised Dealer for the purpose and duly approved by the Reserve Bank of India. As a measure of further liberalisation, RBI has decided as under:

i) to allot Unique Code number only to Link office of the AD Category - I bank; and

ii) to dispense with the allotment of Unique Code number to each branch designated by that AD Category - I bank administering the Scheme.

Accordingly, henceforth in accordance with the policy approved by the Board, bank shall be free to permit its branches to administer the Portfolio Investment Scheme for NRIs subject to the following:

a) the bank while granting permission to NRI for investment under PIS shall allow them to operate the scheme as per the terms and conditions laid down by RBI;

b) the designated link office shall continue to report on a daily basis PIS transactions undertaken on behalf of NRIs for their entire bank to RBI, under the Online Report Filing System (ORFS) in form LEC (NRI).

c) the bank shall provide to RBI, the complete contact details of such link office in advance before commencing operations;

d) the bank shall sensitise the branches administering the Scheme to ensure that NRIs are not allowed to invest in any Indian company which is engaged or proposes to engage in the business of chit fund, Nidhi company, agricultural or plantation activities, real estate business (does not include development of townships, construction of residential / commercial premises, roads or bridges, educational institutions, recreational facilities, city and regional level infrastructure, townships), construction of farm houses, manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes and trading in Transferable Development Rights (TDRs);

e) Overseas Corporate Bodies(OCBs) have been derecognized as an eligible 'class of investor' under various routes/scheme available.

FOREIGN INVESTMENTS IN ASSET RECONSTRUCTION COMPANIES (ARC)

As per extant guidelines, (a) Foreign Direct Investment (FDI) upto 49% in the equity capital of Asset Reconstruction Companies (ARCs) is permitted subject to certain conditions. However, investment by Foreign Institutional Investors (FIIs) in the equity capital of ARCs is not permitted; and (b) general permission has been granted to Foreign Institutional Investors (FIIs) to invest in Security Receipts (SRs) upto 49 per cent of each tranche of scheme of Security Receipts subject to condition that investment of a single FII in each tranche of scheme of SRs shall not exceed 10 per cent of the issue. RBI has now decided as under:

(a) The ceiling for FDI in ARCs has been increased from 49% to 74% subject to the condition that no sponsor may hold more than 50% of the shareholding in an ARC either by way of FDI or by routing through an FII. The foreign investment in ARCs would need to comply with the FDI policy in terms of entry route conditionality and sectoral caps.

(b) The foreign investment limit of 74% in ARC would be a combined limit of FDI and FII. Hence, the prohibition on investment by FII in ARCs will be removed. The total shareholding of an individual FII shall not exceed 10% of the total paid-up capital.

(c) The limit of FII investment in SRs may be enhanced from 49% to 74% of the paid up value of each tranche of scheme of Security Receipts issued by the Asset Reconstruction Companies. Further, the individual limit of 10% for investment of a single FII in each tranche of SRs issued by ARCs may be dispensed with. Such investment should be within the FII limit on corporate bonds prescribed from time to time, and sectoral caps under the extant FDI Regulations should be complied with.

IMPORT OF GOLD BY NOMINATED BANKS

As per circular dated July 22, 2013, RBI had imposed certain restrictions on the import of various forms of gold by nominated banks/nominated agencies/ premier or star trading houses/SEZ units/EoUs. RBI has now issued the following guidelines in supersession of all the earlier instructions:

a) Import of gold in the form of coins and medallions is now prohibited.

b) All nominated banks/nominated agencies and other entities should ensure that at least one fifth, i.e., 20%, of every lot of import of gold imported to the country is exclusively made available for the purpose of exports and the balance for domestic use. This shall be monitored by customs authorities, and will be implemented port-wise only.

c) Further, nominated banks/ nominated agencies and other entities shall make available gold for domestic use only to the entities engaged in jewellery business/bullion dealers and to banks authorised to administer the Gold Deposit Scheme against full upfront payment. In other words, supply of gold in any form to the domestic users other than against full payment upfront shall not be permitted.

d) The nominated banks/agencies/refineries and other entities shall ensure that there is no front loading of imports, particularly in the first and second lots of imports. Such imports shall be linked to normal quantities of gold supplied to the exporters by the nominated banks/agencies and shall not exceed the highest quantity supplied during any one year out of last three years. The quantity thus arrived at, however, will not be imported in one or two lots only. As a thumb rule, imports of more than maximum of two months of requirements of the exporters in a lot would be considered unusual. Illustratively, if the gold supplied to exporters by a bank during the last three years is say, 30 tonnes, 40 tonnes and 60 tonnes respectively, imports in terms of this circular shall be based on highest of three i.e. 60 tonnes. Further, import of 50 tonnes(two months export of 10 tonnes for exports and 4 times the amount for domestic use, totalling 50 tonnes) will be considered unusual. In case of nominated banks not having a previous record of having supplied gold to the exporters they would need to seek prior approval from RBI before placing orders for import of gold for the first lot under the 20/80 scheme.

e) The 20/80 principle would also apply for the henceforth import of gold in any form/purity including gold dore, whereby 20 per cent of the gold imported shall be provided to the exporters. This will be administered and monitored at the refinery level for each consignment at the time of such imports. This will also be monitored by the customs authorities. The refinery shall make available for domestic use only to the entities engaged in jewellery business/bullion dealers and to the banks authorised to administer the Gold Deposit Scheme against full upfront payment and sale of gold against any other form of payment shall not be permitted. Further, the import of gold dore is permitted only against a licence issued by DGFT.

f) Any authorisation such as Advance Authorisation/Duty Free Import Authorization (DFIA) is to be utilised for import of gold meant for export purposes only and no diversion for domestic use shall be permitted.

Entities/units in the SEZ and EoUs, Premier and Star trading houses are permitted to import gold exclusively for the purpose of exports only.

Banks should ensure that foreign exchange transactions effected by / for their constituents are compliant with the above instructions. Head Offices of nominated agencies / International Banking Divisions of banks would be responsible for monitoring operations of the revised scheme taking into account transactions put through different centres. In respect of gold released for the purpose of exports, AD Category I banks will also put in place a special mechanism to monitor realization of export proceeds.

<u>Working example of the operations of 20/80 scheme</u>

1. A nominated bank/agency/ any other entity ABC imports say 100 kg of gold, which shall be routed through custom bonded warehouses only. If considered necessary, the lot can be procured through two invoices – one for exporters (i.e.20%) and the other one for domestic users (80%).
2. Out of the above import of 100 kg, 20 kg gold held in the bonded warehouse can be got released in part or full to be made available to the exporters of gold against undertaking to customs authorities as is the practice now.
3. The balance 80 kg can be supplied in part or full to domestic entities engaged in jewellery business/bullion traders/banks operating the Gold Deposit Scheme against full upfront payment. In other words, no credit sale of gold in any form will be permitted for domestic use. In case, the nominated bank itself is operating the Gold Deposit Scheme, the bank is permitted to use out of 80 kg, a portion for regularising own open position in gold arising out of operations of the Gold Deposit Scheme.
4. Next lot of import of gold by ABC shall be permitted by the customs authorities only after the quantity earmarked for exporter clients (i.e. 20 per cent of the imported lot) is released to the exporters against their undertaking to fulfill the export commitments within the stipulated time.
5. The quantum of gold permitted to be imported in the third lot will be restricted to 5 times the quantum for which proof of export is submitted. For import of gold in the subsequent lots, the cycle may be repeated following the 20/80 principle.

CLEAN NOTE POLICY

Under the present system of mechanized processing of banknotes, inscription or scribbling on any part of the banknote would render it to be classified as unfit for reissue. Accordingly, such banknotes get treated as soiled banknotes and cannot be recirculated. Therefore, RBI has advised that bank staff should stop writing / scribbling of any kind on any part of the banknote.

RISK MANAGEMENT AND INTER-BANK DEALINGS

As per extant guidelines, if an FII wishes to hedge the Rupee exposure of one of its sub-account holders, it should be done on the basis of a mandate from the sub-account holder for the purpose and that the AD bank should verify the same along with the eligibility of the contract vis-a-vis the market value of the securities held in the concerned sub-account. As regards Participatory Notes(PN) /Overseas Derivative Instruments(ODI) issued by the FIIs, if an FII wishes to enter into a hedge contract for the exposure relating to that part of the securities held by it against which it has issued any PN/ODI, it must have a mandate from the PN/ODI holder for the purpose. Further, while AD Category bank is expected to verify such mandates, in cases where this is rendered difficult, they may obtain a declaration from the FII regarding the nature/structure of the PN/ODI establishing the need for a hedge operation and that such operations are being undertaken against specific mandates obtained from their clients.

RBI ANNUAL REPORT : 2012-13

The Reserve Bank of India released its Annual Report for 2011-12 on 22nd August 2013. Highlights of the Report are given below:

Assessment for 2012-13

1. The year 2012-13 was marked by slowing growth, lingering inflation, large fiscal and current account gaps and deteriorating asset quality. With growth decelerating further and staying below trend for the second consecutive year, ordinarily the policy response would have been an accommodative monetary policy. The Reserve Bank did ease monetary policy, but in a calibrated manner. Persisting inflation was eroding the competitive efficiency of the economy and lowering the financial savings of households with its adverse consequences for the CAD, investment and long-term growth.
2. Growth decelerated further in 2012-13 to a 10-year low of 5.0 per cent. The slowdown also became more pervasive across sectors, including services. Growth had averaged 8.8 per cent during 2005-06 to 2010-11, despite a low of 6.7 per cent in 2008-09 due to the external shock. The subsequent slowdown was primarily exacerbated by structural bottlenecks and governance issues, although high inflation, monetary tightening and global factors also played a role.
3. Industrial performance: Manufacturing output nearly stagnated, recording a dismal 1.0 per cent growth y-o-y during 2012-13. Growth slowed due to cyclical factors in both external and domestic demand. Subdued growth in world trade kept export demand low. Agricultural growth also decelerated to below trend. Two years of industrial slowdown and dampened demand has slowed down services sector activity as well.
4. Inflation: Headline inflation, which had risen sharply in H2 of 2009-10 to reach double digits, had prompted Reserve Bank to assume an anti-inflationary monetary policy stance. But, RBI cut the repo rate by another 25 bps to 7.25 per cent in early May 2013 in continuation of its growth-supportive monetary policy stance. However, the Federal Reserve Chairman's comments on May 22, indicating likely tapering of quantitative easing (QE) triggered global bond sell-offs that generated large capital outflows from emerging markets, including India, and imparted significant downward pressures on emerging market currencies across the world.
5. Causes for economic slowdown: Growth slowdowns are typically associated with cyclical or structural shocks that are often called real business cycle shocks in economics. The former are transitory, while the latter are more persistent. Over the past two years, although part of the slowdown has been driven by cyclical factors, structural constraints have played a major role in the slowdown. Growth slowdown to a substantial extent has been the result of investment downturn. Investment climate for the private corporate sector remained weak in 2012-13. Global growth decelerated to 3.1 per cent in 2012, the lowest since the 2009. Likewise, global trade decelerated sharply to 2.5 per cent from 6.0 per cent in the preceding year and 12.5 per cent a year ago. Consequently, external demand fell and revival was difficult. Monetary policy encountered difficulties in supporting revival in the face of the predominant role of non-monetary factors in the slowdown and the persistence of high inflation. Long-run changes in growth are mainly driven by technology, productivity shocks and fiscal policies that affect thrift and investments.
6. Persistence of Inflation: On an average basis, headline inflation came down to 7.4 per cent from 8.9 per cent in 2011-12 and 9.6 per cent a year ago.
7. Fiscal imbalances and the reversal: The fiscal correction in the second half of the year resulted in a significant reduction in the gross fiscal deficit (GFD) to 4.9 per cent of GDP in 2012-13 from 5.7 per cent in 2011-12. The containment of the GFD in 2012-13 in the face of a shortfall in tax and non-tax revenues was largely brought about by scaling down mainly plan capital expenditure. Over the medium term, efforts should be to contain revenue expenditure, raise tax revenue buoyancy and contain subsidies to enable durable fiscal consolidation.
8. External sector vulnerabilities: The CAD widened to a historic peak of 4.8 per cent of GDP. The widening of the CAD was largely the result of high oil and gold imports and moderation in export growth. In order to contain gold imports, import duties on gold were doubled from 2 per cent to 4 per cent in March 2012, raised further to 6 per cent in January 2013 and then hiked to 8 per cent in June 2013 and to 10 per cent in August 2013. During 2012-13, India's external debt rose by about US$ 45 billion to US$ 390 billion.

Prospects for 2013-14 & Growth outlook

1. The emerging macroeconomic scenario for the year 2013-14 is challenging amid the wide CAD, risks to fiscal targets, persistence of high consumer price inflation, risk of exchange rate depreciation feeding into inflation, slowing growth and deteriorating asset quality.
2. The indication by the Federal Reserve of US, that it would unwind part of the monetary stimulus earlier than anticipated, has led to tightening in financial conditions. Bond yields firmed up across the curve and across geographies, and brought further changes in other asset prices. Currencies of the Emerging Markets and Developing Economies (EMDEs) depreciated speedily, not just of the current account deficit economies but also for some current account surplus economies. This, in turn, led to a decline in equity prices as portfolio shifts occurred from EMDEs to US markets. These global spillovers affected India, like many other EMDEs. After the Fed Chairman's comments on May 22, until July 15, 2013 foreign institutional investors (FIIs) on a net basis disinvested US$ 8.3 billion of their bond portfolio and US$ 2.1 billion of their equity portfolio in cash markets in India. The resultant net outflows brought the rupee under immense pressure.
3. Recovery can take shape later in 2013-14, but is predicated on better governance, the removal of supply constraints and maintenance of stability. Crop prospects are encouraging as the area sown under kharif crops till August 9, 2013 was 11 per cent higher than last year and 7 per cent higher than the normal area sown till date. The current slowdown, has impacted economic activity in urban areas more than in rural areas. Industrial growth has been nearly stagnant for two years now, with signs that the stagnation has

extended into 2013-14. In attempting to revive demand, it is important to reduce the current high consumer price inflation. The effects of government efforts to incrementally resolve key policy impediments to investment, such as land acquisition, environmental clearances and raw material shortages, particularly coal, should translate into ground-level execution. Recent steps to increase in-bound FDI could also provide a fillip to domestic investments.

4. **Inflation Outlook for 2013-14:** Although headline inflation had moderated in Q1 of 2013-14 to an average of 4.7 per cent, risks on the inflation front are still significant. Creeping inflation pressures are visible arising from rising food and fuel prices, the latter in large part due to exchange rate depreciation. Second, while WPI inflation has moderated, CPI inflation remains close to double digits. Third, although food inflation came down from its high of January 2013, it has resurfaced since May 2013. Fourth, the pass-through of the depreciation of the rupee exchange rate by about 11 per cent in the first four months of 2013-14 is incomplete and will put upward pressure as it continues to feed through to domestic prices.
5. **Controlling twin deficit risks:** The planned reduction in the GFD to 4.8 per cent of GDP in 2013-14 (BE) is expected to be achieved through higher mobilisation of disinvestment proceeds, tax revenues, telecommunications receipts and reduction in expenditure on subsidies. However, the budget estimates of gross tax revenue were based on estimated nominal GDP growth of 13.4 per cent and with growth likely to be lower, it may be difficult to achieve the budgeted tax-GDP ratio of 10.9 per cent. Given the emerging conditions in the financial markets, it would be challenging to raise the budgeted disinvestment proceeds. The key concern is that it is difficult to contain food subsidies within budgeted amount even in 2013-14 when the Food Security Act will just begin to get implemented.
6. The CAD is expected to see correction due to trade policy measures taken to curb gold imports and price adjustments effected to moderate consumption of fuel products. CAD in 2013-14 is expected to be lower than the historic high of 2012-13. However, CAD may continue to be much above the sustainable level, which is estimated at around 2.5 per cent of GDP, underscoring the importance of medium-term correction aimed at improving export competitiveness, discouraging avoidable imports and to improve more stable capital inflows.
7. **Financial stability**: There is a need to contain financial stability risks that are rising with the deteriorating asset quality of banks. Although the average leverage ratio for the corporate sector remains comfortable, stress is building up in some sectors, especially infrastructure. Given the current fluid situation with respect to key asset prices in currency, equity, bond and commodity markets, the external finance premium facing a firm could go up and impact access to finance. The ratio of gross NPA to gross advances for scheduled commercial banks increased markedly, from 2.36 per cent in March 2011 to 3.92 per cent in June 2013. Public sector banks account for a disproportionate share of this increase, with the new private sector banks managing to lower their NPA ratio. For the system as a whole, restructured standard assets as a percentage of gross advances more than doubled, from 2.6% in Dec 2010 to 6.1% in June 2013.
8. **Transition to the Basel III framework:** India is one of the first countries to come out with the final guidelines on Basel III capital regulations, which are effective from April 1, 2013 in a phased manner to be fully implemented by end-March 2018. Despite the fact that Indian banks appear well-capitalised with an overall CRAR at 13.5 per cent (at end-June 2013), Basel III would significantly increase capital requirements for Indian banks. The credit needs to finance growth could go up over the years and, accordingly, the capital needs of the banking sector would be higher. Further, given the strong presence of public sector banks, the fiscal burden of Basel III cannot be overruled if majority shareholding by the government is to be maintained. The available broad estimates suggest that the full implementation of Basel III by end-March 2018 would require common equity of Rs 1.4-1.5 trillion on top of internal accruals, in addition to Rs 2.65-2.75 trillion in the form of non-equity capital for public sector banks alone.

Looking Ahead

Indian economy is currently going through a difficult period. Growth has also slowed down in many other EMDEs. The focus need to be on implementation of measures aimed at removing structural constraints so that production and investment activity could gather momentum. With consumer price inflation, fiscal deficit and current account deficit being amongst the highest in EMDEs, the need to preserve macroeconomic stability has emerged as a binding constraint. Inherently, the Indian economy has several strengths including its natural endowment and demographic dividends. Simple institutional reforms such as better regulation of natural resources, improved harnessing of water resources, investing more in skill formation, digitalising land records, land consolidation, better integration of regional agricultural markets, freer labour markets and more competitive domestic markets can help in improving India's potential as well as actual growth.

BRIEF PROFILE OF EDITOR
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1. Shri A.K. Gupta is a post graduate in commerce, LL.B, CAIIB, PG Dip in Personnel Management and IR, PG Dip in Marketing and Management, PG Diploma in Training and Development, Cert in Industrial Finance;
2. Ex- Chief Manager, Punjab National Bank with an experience of more than 28 years as a banker;
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4. Has been examiner with Indian Institute of Banking & Finance (IIBF, Mumbai) for about 5 years;
5. Remained associated with number of management institutions at MBA level including Masters of Finance, University of Delhi, International Management Institute Conducted programmes in the area of Asset Liability Management and Credit risk management for top management executives in the rank of Chief General Manager/General Manager/DGM/ AGMs of SIDBI, Central Bank of India, Dena Bank, Punjab & Sind Bank
6. Was a student of University of Manchester for 3 months for an advanced programme in Development Banking.

EXPORT OF GOODS & SERVICES

(Summary of RBI Guidelines)

Export trade is regulated by the Directorate General of Foreign Trade (DGFT) and its regional offices, functioning under the Ministry of Commerce and Industry, Department of Commerce, Government of India. All export contracts and invoices shall be denominated either in freely convertible currency or in Indian Rupees but export proceeds shall be realised in freely convertible currency. Indian Rupee is not a freely convertible currency, as yet.

Manner of Receipt and Payment: The amount representing the full export value of the goods exported shall be received through an AD Bank in the following manner: (a) Bank draft, pay order, banker's or personal cheques; (b) Foreign currency notes/foreign currency travellers' cheques from the buyer during his visit to India; (c) Payment out of funds held in the FCNR/NRE account maintained by the buyer; (d) International Credit Cards of the buyer. Banks have been allowed to offer the facility of repatriation of export related remittances by entering into standing arrangements with Online Payment Gateway Service Providers (OPGSPs).

Settlement system under ACU Mechanism: Participants in the Asian Clearing Union are allowed to settle their transactions either in ACU Dollar or in ACU Euro. Accordingly, the Asian Monetary Unit (AMU) shall be denominated as 'ACU Dollar' and 'ACU Euro' which shall be equivalent in value to one US Dollar and one Euro, respectively. Indo-Myanmar Trade - Trade transactions with Myanmar can be settled in any freely convertible currency in addition to the ACU mechanism. With effect from December 27, 2010, all eligible current account transactions including trade transactions with Iran should be settled in any permitted currency outside the ACU mechanism, until further notice.

Realisation and Repatriation of export proceeds

The exporter should realise and repatriate the full value of goods or software to India within stipulated period, as under :

1. Units located in SEZs shall realize and repatriate, full value of goods / software / services, to India within a period of twelve months from the date of export. Any extension of time beyond the above stipulated period may be granted by Reserve Bank of India, on case to case basis.
2. Status Holder Exporters as defined in the Foreign Trade Policy : Within a period of twelve months from the date of export;
3. 100 % Export Oriented Units (EOUs) and units set up under Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Biotechnology Parks (BTPs) schemes : Within a period of twelve months from the date of export on or after September 1, 2004;
4. Goods exported to a warehouse established outside India : As soon as it is realised and in any case within fifteen months from the date of shipment of goods;
5. All other cases: Period of realization and repatriation to India has been brought down to nine months from the date of export, till September 30, 2013.

Diamond Dollar Account (DDA): Under the scheme of Government of India, firms and companies dealing in purchase / sale of rough or cut and polished diamonds / precious metal jewellery plain, minakari and / or studded with / without diamond and / or other stones, with a track record of at least 2 years in import / export of diamonds / coloured gemstones / diamond and coloured gemstones studded jewellery / plain gold jewellery and having an average annual turnover of Rs. 3 crores or above during the preceding three licensing years (licensing year is from April to March) are permitted to transact their business through Diamond Dollar Accounts. They may be allowed to open not more than five Diamond Dollar Accounts with their banks.

Advance Payments against Exports: Where an exporter receives advance payment (with or without interest), from a buyer outside India, the exporter shall be under an obligation to ensure that – (a) the shipment of goods is made within one year from the date of receipt of advance payment; (b) the rate of interest, if any, payable on the advance payment does not exceed London Inter-Bank Offered Rate (LIBOR) + 100 basis points; and (c) the documents covering the shipment are routed through the AD Category – I bank through whom the advance payment is received. However, if exporter is unable to make the shipment, partly or fully, within one year from the date of receipt of advance payment, no remittance towards refund of unutilized portion of advance payment or towards payment of interest, shall be made after the expiry of the said period of one year, without the prior approval of RBI.

Part Drawings /Undrawn Balances: In certain lines of export trade, it is the practice to leave a small part of the invoice value undrawn for payment after adjustment due to differences in weight, quality, etc., to be ascertained after arrival and inspection, weighment or analysis of the goods. In such cases, banks may negotiate the bills, provided: (a) The amount of undrawn balance is considered normal in the particular line of export trade, subject to a maximum of 10 per cent of the full export value.

(b) An undertaking is obtained from the exporter on the duplicate of GR/SDF/PP forms that he will surrender/account for the balance proceeds of the shipment within the period prescribed for realization. In cases where the exporter has not been able to arrange for repatriation of the undrawn balance in spite of best efforts, banks should ensure that the exporter has realised at least the value for which the bill was initially drawn (excluding undrawn balances) or 90 per cent of the value declared on GR/PP/SDF form, whichever is more and a period of one year has elapsed from the date of shipment.

Direct dispatch of documents by the exporter: Banks should normally dispatch shipping documents to their overseas branches/correspondents. However, they may dispatch shipping documents direct to the consignees or their agents resident in the country of final destination of goods in cases where advance payment or an irrevocable letter of credit has been received for the full value of the export shipment and the underlying sale contract/letter of credit provides for dispatch of documents direct to the consignee or his agent resident in the country of final destination of goods. The banks may also accede to the request of the exporter provided the exporter is a regular customer and the bank is satisfied, on the basis of standing and track record of the exporter and arrangements have been made for realisation of export proceeds. Documents in respect of goods or software are accompanied with a declaration by the exporter that they are not more than Rs. 25,000/- in value and not declared on GR/SDF/PP/SOFTEX form may also be sent directly to consignee. Banks may regularize cases of dispatch of shipping documents by the exporter direct to the consignee or his agent resident in the country of the final destination of goods, up to USD 1 million or its equivalent, per export shipment, subject to the following conditions – (a) The export proceeds have been realised in full; (b) The exporter is a regular customer of the bank for a period of at least six months; (c) The bank is satisfied about the bonafides of the transaction.

Export of Currency: Any export of Indian currency of value exceeding Rs.7,500/- will require prior permission of RBI.

Export Declaration Forms:

GR forms: GR Forms is to be completed for export otherwise than by Post including export of software in physical form i.e. magnetic tapes / discs and paper media. Within 21 days from the date of export, exporter should lodge the duplicate copy together with relative shipping documents with the bank named in the GR form. After the documents have been negotiated / sent for collection, the AD Category – I banks should report the transaction to the Reserve Bank in statement ENC under cover of appropriate R-Supplementary Return. The duplicate copy of the form together with a copy of invoice etc. shall be retained by the banks and may not be submitted to the Reserve Bank.

SDF: SDF form is used for export otherwise than by post where custom office is linked to EDI.

The copy of the shipping bill marked 'Exchange Control Copy' to which form SDF has been appended is given by customs to exporter for submission to the banks within 21 days from the date of export.

PP Forms: This form is used for export by post. Postal Authorities will allow export of goods by post only if the original copy of the form has been countersigned by an AD Category – I bank.

SOFTEX Forms: This is used when export of software in non physical form. A software exporter, whose annual turnover is at least Rs. 1000 crore or who files at least 600 SOFTEX forms annually, will be eligible to submit a statement in excel format, to the nearest STPI instead of submitting individual Softex forms.

Delay in submission of shipping documents by exporters: In cases where exporters present documents pertaining to exports after the prescribed period of 21 days from date of export, AD Category – I banks may handle them without prior approval of the Reserve Bank, provided they are satisfied with the reasons for the delay.

Follow-up of Overdue Bills: Bank should follow up where bills remain outstanding, beyond the due date for payment or 12 months from the date of export. If the exporter fails to arrange for delivery of the proceeds within 12 months or seek extension of time beyond 12 months, the matter should be reported to the Regional Office concerned of RBI. The stipulation of twelve months is not applicable for units located in Special Economic Zones (SEZs).

XOS statement: All the export bills outstanding beyond six months from the date of export may be reported to RBI in XOS statement as at the end of June and December every year. The statement should be submitted in triplicate within fifteen days from the close of the relative half-year.

Reduction in Invoice Value on Account of Prepayment of Usance Bills: Banks may allow cash discount to the extent of amount of proportionate interest on the unexpired period of usance, calculated at the rate of interest stipulated in the export contract or at the prime rate/LIBOR of the currency of invoice where rate of interest is not stipulated in the contract.

Reduction in Invoice Value in other cases: If, after a bill has been negotiated or sent for collection, its amount is to be reduced for any reason, Banks may approve such reduction, provided the reduction does not exceed 25 per cent of invoice value. In the case of exporters who have been in the export business for more than three years, reduction in invoice value may be allowed, without any percentage ceiling, subject to the condition that the export outstandings do not exceed 5 per cent of the average annual export realization during the preceding three financial years.

Change of buyer/consignee: Prior approval of is not required if, after goods have been shipped, they RBI are to be transferred to a buyer other than the original buyer in the event of default by the latter, provided the reduction in value, if any, involved does not exceed 25% of the invoice value and the realization of export proceeds is not delayed beyond the period of 12 months from the date of export.

Extension of time and Self write-off by the exporters: For export proceeds due within the prescribed period during a financial year all exporters (Including Status Holder exporters) have been allowed to write-off (including reduction in invoice value) outstanding export dues and extend the prescribed period of realization beyond 12 months or further period as applicable, provided the aggregate value of such export bills written-off (including reduction in invoice value) and bills extended for realization does not exceed 10 per cent of the export proceeds due during the financial year.

Extension of Time: Banks may extend the period of realization of export proceeds beyond 12 months from the date of export, up to a period of six months, at a time, irrespective of the invoice value of the export provided the total outstanding of the exporter does not exceed USD one million or 10 per cent of the average export realizations during the preceding three financial years, whichever is higher. In cases where the exporter has filed suits abroad against the buyer, extension may be granted irrespective of the amount involved / outstanding.

Write off by AD Category – I banks: An exporter who has not been able to realise the outstanding export dues despite best efforts, may either self write off or approach the banks, who had handled the relevant shipping documents, for write off of the unrealised portion. After liberalizing and simplifying the procedure, limits prescribed for "write-offs" of unrealized export bills are as under: (a) Self "write-off" by an exporter (Other than Status Holder Exporter): 5% of the total export proceeds realized during the previous calendar year. For Self "write-off" by Status Holder Exporters, this percentage is 10% and for 'Write-off" by Authorized Dealer Bank, the percentage is 10%. The above limits will be related to total export proceeds realized during the previous calendar year and will be cumulatively available in a year.

Agency Commission on Exports: AD Category – I banks may allow payment of commission, either by remittance or by deduction from invoice value. The remittance on agency commission may be allowed provided amount of commission has been declared on GR/SDF/PP/SOFTEX form and accepted by the Customs authorities or Ministry of Information Technology, Government of India / EPZ authorities as the case may be.

Exporters' Caution List: Banks may approve GR/SDF/PP forms of exporters who have been placed on caution list issued by RBI if the exporters concerned produce evidence of having received an advance payment or an irrevocable letter of credit in their favour covering the full value of the proposed exports. Such approval may be given even in cases where usance bills are to be drawn for the shipment provided the relative letter of credit covers the full export value and also permits such drawings and the usance bill mature within twelve months from the date of shipment.

FINANCIAL AWARENESS

June quarter GDP growth dips to 4-year low of 4.4%: India's gross domestic product (GDP) growth dived to a four-year low of 4.4 per cent in the April-June quarter of 2013-14, against 4.8 per cent in the fourth quarter of the previous financial year. Economic growth was lower than this in the fourth quarter of 2008-09, at 3.5 per cent, which had seen the ripple effects of the global financial crisis. In the first quarter of 2012-13, the growth was 5.4 per cent.

Companies Bill enacted into law: The Companies Bill 2013 has received Presidential assent. With this move, India has now got a new company law that has replaced the erstwhile Companies Act 1956. The Corporate Affairs Ministry is expected in the next few weeks to come up with draft rules for public comments.

No proposal to convert idle gold into bullion: RBI has clarified that there is any proposal for converting idle gold, including that available with temple trusts, into bullion.

Rising credit costs, provisioning may hit banks' profitability: According to ICRA, declining margins, rising credit costs and provisions are likely to affect the profitability of banks in fiscal year 2014.

Direct subsidy for LPG in 269 districts by Jan: The Government has said it will roll out the scheme for direct transfer of domestic cooking subsidy to bank accounts in 269 new districts by January 2014. As per this scheme, an LPG consumer will get his/her cylinder at full market price and the difference between the subsidised and market price, which is the subsidy, is transferred to the bank account.

Lok Sabha passes Land Bill: The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 was passed in the Lok Sabha on 29th August 2013.

Lok Sabha passes Food Security Bill: The Bill was passed on 26th August 2013. The Land Bill seeks to lay down a transparent process for land acquisition for industrialisation, development of essential infrastructural facilities and urbanisation by giving adequate financial compensation to the affected people.

Use regional languages for financial inclusion: D. Subbarao, RBI Governor has advised banks to to reach out to people in Hindi and other regional languages, if financial inclusion has to make any meaningful contribution.

Farm sector can lift growth to 5.5%: According to C. Rangarajan, Chairman of the Prime Minister's Economic Advisory Council, better-than-expected agricultural growth may help lift the country's economic growth to 5.5 per cent this fiscal.

Govt shareholding in banks must be brought down to 33%: According to a RBI discussion paper, as public sector banks will require additional capital support for expanding their business, the Government should either bring down the floor of its shareholding in these banks or park its entire shareholding in a financial holding company. Banking in India is dominated by the public sector, which accounted for about 73 per cent of total assets of the sector as at end-March 2012. Hence, an important way to achieve an expansion in capital of the banking sector, while managing fiscal consolidation, would be to widely distribute the ownership stake in banking. The ways to achieve this (expansion in capital) could be to bring down the floor of public stake in the banking sector to 33 per cent from the existing 51 per cent, issue of non-voting or differentiated voting shares or go in for structural change by setting up Financial Holding Company.

RBI opens special dollar window for 3 oil marketing firms: To take the pressure off the rupee due to unrelenting demand for the dollar, the Reserve Bank of India has opened a special window to meet the entire daily dollar requirements of three public sector oil marketing companies. The central bank has activated the forex swap window, whereby it will undertake sell/buy of dollar-rupee forex swaps for a fixed period with Indian Oil Corporation, Hindustan Petroleum and Bharat Petroleum through a designated bank.

10 PSUs to raise Rs 15,000 cr via Sovereign Wealth Funds: In an effort to boost forex inflows, the Finance Ministry has worked out a strategy for as many as 10 public sector entities to tap Sovereign Wealth Funds (SWFs) to raise at least Rs 15,000 crore in foreign currency. This will be part of a tax-free bond issue. SWFs are normally state-owned, with funds collected from budget and trade surpluses. The money is normally invested in real and financial assets at home and abroad.

Rupee beats Rs 68: On August 28, 2013, the rupee closed at 68.80 on heavy month-end demand for dollars from banks and oil importers amid a sharp fall in the domestic equity market. The rupee has tumbled not only against the dollar, but also against the euro and the pound to Rs 91.5 and Rs 106.8 respectively.

Security norms eased for 100% FDI in telecom: To give foreign exchange inflows in the country a push, the Government has relaxed the norms for foreign direct investment in the telecom sector by dropping certain security-related provisions mandatory for 100 per cent FDI proposals.

Per capita income up 6.7% in 2004-12: The per capita income measured by net national income (NNI) has increased by 6.7 per cent per annum between 2004-05 and 2011-12 and poverty reduced by 2.2 per cent per annum during the same period. For 2011-12, the Planning Commission has estimated percentage of people living below the poverty line at 21.9 per cent. The poverty line in 2011-12 in terms of monthly per capita consumption expenditure was estimated at Rs 816 in rural areas and Rs 1,000 in urban areas. State-wise, Uttar Pradesh had highest number of people living below poverty line during 2011-12 at 598.19 people below poverty line out of every lakh. It was followed by Bihar at 358.15 people (per lakh), Madhya Pradesh 234.04 people, Maharashtra 197.92 people and West Bengal at 184.98 people living below the poverty line.

Forex reserves up $205.8 million: India's foreign exchange (forex) reserves rose $205.8 million to $278.80 billion in the week ended August 16. The foreign currency assets, which form a major share of the forex reserves, rose by $211.7 million to $251.56 billion.

IOB worked full day on 24th Aug (Saturday): Due to a complex technological malfunction, its core banking system was affected on Monday (August 19) and it was not able to provide full banking services to its customers. Hence, to make up for the lapse, all branches of the bank across the country worked full day on Saturday.

Iraq promises to resolve exchange related problems: According to Commerce & Industry Minister Anand Sharma, India and Iraq will look at the possibility of trading in their local currencies, insulating India's oil imports from Iraq from the volatile movement of the Indian rupee against the US dollar. Iraq has emerged as the second largest exporter of oil to India second only to Saudi Arabia. Iraq toppled Iran as the second largest supplier of oil to Iran more than a year back, following US and EU sanctions on Iran.

Aadhaar cards not a must for subsidies: According to Union Minister of State for Planning and Parliamentary Affairs Rajeev Shukla, Aadhaar card is not mandatory for availing subsidies. Parliament is yet to pass the Unique Identity Authority of India Bill, which is the legislation that backs Aadhaar cards.

Rupee likely to rebound to 60/$ by March: According to a report by Crisil, the rupee is expected to recover from its current level to 60 to a dollar by March 2014. The strengthening of the rupee will be driven by expectations of the CAD falling to 3.9 per cent of GDP in 2013-14 from 4.8 per cent last year due to a decline in non-oil imports, including gold, increased foreign capital inflows. The steps taken by Govt to increase capital inflows include foreign borrowings by state-owned financial institutions and public sector oil companies and measures to attract non-resident deposits. The rupee had plunged to 65.65 to a dollar on 22nd Aug. However, a sharp recovery to 63.30 against the dollar on 23rd Aug has built the momentum for appreciation. The Indian currency has fallen close to 20 per cent since May and about 10 per cent in August.

Exim Bank to open Myanmar office in September: The Export Import Bank of India will open its eighth overseas office in Yangon, the capital of Myanmar. This is being done as a follow up to Prime Minister Manmohan Singh's recent visit to the Myanmar during which the two sides had signed MoUs worth $500 million. Currently, Exim Bank has overseas offices in Singapore, Dubai, London and Washington DC, besides three offices in Africa.

RBI slaps Rs 6.5-cr penalty on 6 public sector banks for violating KYC norms: RBI imposed a penalty aggregating Rs 6.5 crore on six public sector banks for violating Know Your Customer (KYC)/Anti-Money Laundering (AML) guidelines. The six banks are: Dena Bank (penalty, Rs 2 crore), Corporation Bank (Rs 1.5 crore), IDBI Bank and Indian Bank (Rs 1 crore each), Bank of Maharashtra and Allahabad Bank (Rs 50 lakh each).

Cash-strapped Govt eyes higher tax on super-rich: The Govt plans to add one more slab of 35% to tax the super rich (earning Rs 10 crore or more a year), in addition to the four existing tax slabs – 0, 10%, 20%, 30%. A surcharge of 10 per cent was announced in Budget for 2013 -14, on persons whose taxable income exceeds Rs 1 crore a year.

Health insurance- Firms moving to co-payment model: Health insurance firms are increasingly shifting to the co-payment model, whereby up to 25 per cent of the claim amount will have to be borne by the employee. The insurance company will pay the balance. Co-payment provides tangible benefits to companies in terms of reduced insurance premium.

FMC may be brought under Finance Ministry: The Government is considering bringing the FMC, which regulates commodities futures trading, under the Finance Ministry. Currently, the Commission is under the administrative control of the Consumer Affairs Ministry. This is as a fallout of the National Spot Exchange Ltd fiasco. Since the commodity and equity markets are interlinked, and the latter is regulated by the Securities and Exchange Board of India, such a move is expected to help better coordination among the regulators. Though the NSEL is not regulated by the FMC, the Commission has oversight power.

RBI softens G-Sec blow: To help banks facing huge investment losses in government securities (G-Secs) portfolio, RBI decided to (i) purchase of long-term G-Secs worth Rs 8,000 crore; (ii) allowed banks to spread the capital required to be set aside towards erosion in the value of Government securities classified as available for sale and held for trading — equally over three quarters of the current financial year; (iii) allowed banks to park G-Secs aggregating 24.5 per cent of their deposits in the held-to-maturity (HTM) investment category. Securities parked in HTM do not require banks to set aside capital even if there is erosion in their value. Current regulations require banks to bring down the securities in the HTM category from 25 per cent to 23 per cent of their deposits in a phased manner by March 14. Further, within the above HTM limit, banks have been allowed to transfer securities from the available for sale and held for trading investment categories.

Civil Aviation Authority Bill introduced: A Bill to set up a Civil Aviation Authority which will regulate the civil aviation sector has been introduced in the Lok Sabha. The proposed Authority will have administrative and financial flexibility to regulate the civil aviation sector, but will be under the overall oversight of the Ministry of Civil Aviation. The Authority will enjoy legal status of a separate entity to regulate civil aviation safety and provide for better management of civil aviation through safety oversight of air transport operators, airport operators, air navigation service operators and providers of other civil aviation services or facilities. Besides protecting the interests of the consumers, the Authority will also be required to levy fees and charges chargeable under the Aircraft Act.

Companies Bill goes to President for approval: On 20th Aug, the Lok Sabha agreed to the amendments made by the Rajya Sabha to the Companies Bill 2012 and the same has been sent to President for approval. Rajya Sabha passed the Bill on August 8.

In-principle approval for new banks by early next year: The Reserve Bank of India has received 26 applications for new banking licences. At the first stage, the applications will be screened by RBI to ensure prima facie eligibility of applicants. Then, the applications would be referred to a high-level advisory committee to be set up by RBI.

Poor project appraisal leading to bad loans: According to Dr K.C. Chakrabarty, Deputy Governor, RBI, a substantial portion of the rise in impaired assets in the infrastructure sector is attributable to non-adherence to the basic appraisal standards by banks. Higher NPA in the sector is not an industry-wide issue, it is rather bank-specific. The project appraisal and the decision making in public sector banks has been more impressionistic rather than being information based.

Bond yields surge as rupee goes into downward spiral: A falling rupee, rising global treasury yields and weak macro-economic fundamentals sent 10-year benchmark bond yields over the nine-per-cent mark on 19th Aug. Price of the benchmark Government security (G-Sec), which carries an interest rate of 7.16 per cent on maturity, fell by about Rs 2 to Rs 86.87, with yields shooting up about 33 basis points to 9.23 per cent as foreign investors pulled out money from the debt and equity markets. (G-Sec prices and yields move in opposite directions.)

FDI cap in asset reconstruction firms up to 74%: RBI has notified the hike in the investment ceiling for foreign direct investment (FDI) in Asset Reconstruction Companies (ARCs) from 49 per cent to 74 per cent.

Direct transfer - 32 lakh payments via Aadhaar so far: The Planning Commission has said that 32 lakh payments have so far been made under the Direct Benefits Transfer (DBT) scheme through the Aadhaar Payment Bridge. Over 40 crore Aadhaar enrolments have already been done and there is a target of 60 crore by 2014. Among the States, the largest number of Aadhaar enrolments was done in Andhra Pradesh and Maharashtra at 65,942, 390 and 62,697,642, respectively. The DBT is now being implemented in 28 schemes across 121 districts.

Flat panel TVs no more duty-free baggage: At present, the Government allows airline passengers to import televisions valued up to Rs 35,000 free of any duty (under baggage allowance rules). Air travellers will now have to pay customs duty on flat panel television sets when they land in India from abroad. The new duty regime will come into effect from August 26.

All subsidiaries will be merged with SBI in next 10 years: According to Pratip Chaudhuri, Chairman, SBI, all its subsidiaries will be merged with SBI in the next 10 years and bank will merge one subsidiary every two years.

Chaudhuri, who was at Suranam village in Sivaganga district to launch SBI's 15,000 {+t} {+h} branch, said a decision on the first merger will be taken after a detailed report on State Bank of Hyderabad is received.

NPCI to extend shareholding to 49 more banks: The National Payments Corporation of India (NPCI) is planning to broad base its shareholding by inducting 49 banks as shareholders. The capital (about Rs 100 crore) contributed by the banks towards shareholding will help NPCI to further strengthen the retail payments infrastructure and bring down transaction costs in the banking system. Currently, NPCI has ten core promoter banks — State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank and HSBC. As NPCI is a not-for-profit company, the 10 promoter banks, who each contributed Rs 10 crore to its paid-up capital, do not get any dividend.

Reliance General forays into agriculture insurance: Reliance General Insurance has entered into the agriculture segment through the launch of weather- and yield-based crop insurance schemes for farmers in Bihar, Haryana, Assam, Uttarakhand and Uttar Pradesh. Reliance General Insurance, has been empanelled by the Union Government to implement weather-based crop insurance (WBCI) scheme in 21 States. Besides, the company has also received mandate from the National Agricultural Insurance Scheme (NAIS) to offer yield-based crop protection to farmers in 50 identified districts across the country.

Moody's downgrades three banks: Bank of Baroda, Canara Bank and Punjab National Bank have been downgraded by Moody's due to slower economic growth, deteriorating asset quality and declining margins. The global credit rating agency also changed the financial strength ratings of Union Bank of India to negative.

New scheme to provide skills, jobs for over 40 lakh rural youth: One youth from each rural household that completes 100 days of work under the Mahatma Gandhi National Rural Employment Guarantee Programme will be eligible for skill training and job placement under the National Skill Development Scheme. This will bring around 36-45 lakh rural youth under the scheme, as around 8-10 per cent of the 4.5 crore rural households get 100 days of jobs under the rural job scheme. There will be post-placement support and hand-holding for one to two years. This scheme was announced by Finance Minister P. Chidambaram. The scheme is expected to benefit 10 lakh people in the first year of its implementation. Each tested and certified trainee will get an average of Rs 10,000 to cover training costs. The scheme, branded as STAR (Standard Training Assessment and Reward) for promotional purposes, envisages that a monetary reward will, in essence, help those who wish to acquire a new skill or upgrade skills. The National Skilling Mission envisages adding 500 million skilled Indians by 2022. While 150 million are expected to be contributed by the private sector working under National Skill Development Corporation (NSDC), 350 million will be contributed by 18-odd Central Ministries.

New guidance note on preparing diligence reports for banks on anvil: As part of efforts to enhance capability of its members in preparing diligence reports for submission to consortium/multiple lenders, the Institute of Company Secretaries of India has decided to launch a revised guidance note. In September 2008, the Reserve Bank of India had advised commercial banks (excluding regional rural banks and local area banks) to obtain regular certification (diligence report) from professionals, as regards compliance of various statutory prescriptions. The Finance Ministry has also asked public sector banks to do their own due diligence on loan proposals instead of relying excessively on the appraisals done by lead banks. In consortium lending, small- and mid-size banks have, till now, often depended on the due diligence done by lead banks.

RBI limits forex outflows; bans gold coin imports: To stem the rupee's slide, RBI has taken following steps – (a) The limit for fresh overseas direct investment (ODI) transactions slashed from 400 per cent of the net worth of an Indian entity to 100 per cent of its net worth; (b) Remittances by resident individuals under the Liberalised Remittance Scheme (LRS) reduced to $75,000 from $200,000 during a financial year; (c) Use of LRS for acquisition of immovable property outside India directly or indirectly will not be allowed; (d) Out of the total gold imports, 20 per cent will need to be exported while 80 per cent can be used for domestic consumption. Imports can be done only on full upfront payment.

Efforts to keep CAD under $70 b: According to Finance Minister P. Chidambaram, the Government will make all efforts to contain the current account deficit at $70 billion by the end of this fiscal.

Rajya Sabha take up Bill on regulator for real estate: The Real Estate (Regulation and Development) Bill 2013, aimed at inducting professionalism and standardisation in the Real Estate sector, has been tabled in Rajya Sabha. The Bill will ensure greater accountability towards consumers and significantly reduce frauds, delays and transaction costs. The Bill provides for the establishment of an independent regulator, the Real Estate Regulatory Authority of India. The Bill will bring about standardisation in the sector leading to healthy and orderly growth of the industry through introduction of definitions such as 'apartment', 'common areas', 'carpet area', 'advertisement', 'real estate project', 'prospectus' etc. Introduction of the concept of using only 'carpet area' for sale which has till now been ambiguously sold as super area, super built up area etc., will curb unfair trade practices.

FMC tells NSEL not to settle bullion body members' dues: The Forward Markets Commission has instructed the troubled National Spot Exchange not to make any settlement to members of the Indian Bullion Market Association as the members of the Indian Bullion Market Association hold substantial equity stake in the exchange and thus NSEL's related entity. In 2009, NSEL had formed Indian Bullion Market Association in an attempt to create a trading entity on the lines of The London Bullion Market Association, the international setter of gold prices. The Indian Bullion Market Association comprises bullion dealers and jewellers.

Inflation surges to 5-month high of 5.78% in July: Food articles' inflation rose to double digits at 11.91 per cent in July 2013 against 9.74 per cent in June. The rise in inflation was mainly on account of the sharp slide in rupee against the dollar.

New company law to come into effect on April 1, 2014: While Parliament has given its nod for the Companies Bill, according to Renuka Kumar, Joint Secretary, Ministry of Corporate Affairs, the entire law, including the Rules, will be in place by April 1, 2014.

LIC can invest up to 25% in corporate debt: The Government has relaxed the debt investment norms for Life Insurance Corporation of India to 20 per cent and in special circumstances, up to 25 per cent.

Govt hikes import duty on gold, silver: To curb surging gold imports and the burgeoning current account deficit, the Government has raised import duty on precious metals from 8 per cent to 10 per cent. This is the third time since January that import duty on gold has been hiked. At present, import duty on gold jewellery stands at 12 per cent. Duty free gold up to one kg can be imported as part of the baggage of an individual coming to India provided he has spent at least six months abroad and has paid in foreign currency for the purchase.

Cabinet panel okays funding to buy 10,000 buses: The Cabinet Committee on Economic Affairs (CCEA) has approved funding for procuring up to 10,000 buses and building ancillary infrastructure for urban transport for all cities, towns, urban agglomerations with a special emphasis on hill States. The funding for procurement is to be done under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

LPG users in 35 more districts to get cash subsidy: With this, the total number of districts to be covered by the scheme goes up to 55. This will bring 1.4 crore more LPG consumers under the transfer ambit, and they will get the LPG subsidy directly credited into their bank accounts, taking the total number of such consumers to 2.12 crore. Twelve districts in Kerala, seven in Andhra Pradesh, seven in Himachal Pradesh, five in Punjab, two in Madhya Pradesh and one each in Maharashtra and Goa will be covered by September 1.

RBI should continue to regulate NBFCs: RBI Governor, D. Subbarao has stated that taking away the regulatory powers of RBI to supervise non-banking finance companies and other deposit-taking entities may reduce the impact of monetary policy. For monetary policy to be effective, credit creation (that is, by banks and credit institutions like NBFCs) should be regulated by the central bank.

Banks must seek management change before recasting corporate loans: The Finance Ministry wants banks to get tough with wilful defaulters, going to the extent of even seeking change in management of the enterprises they run if they do not pay up. According to Rajiv Takru, Secretary, Financial Services, bankers have been told to insist on management change before they restructure the loans of companies that do not repay loans because of poor decisions taken by the management earlier.

Publishing photographs of defaulters in newspapers illegal: The Kerala High Court has held as arbitrary and illegal the decision of the State Bank of India to publish the photographs of loan defaulters in newspapers.

SEBI to focus more on bringing household savings into the stock markets: SEBI has decided to heavily penalise unregistered collective investment schemes, or the so-called Ponzi schemes, and will proceed against individuals for unfair trade practices, including front running. Front running is the act of buying or selling scrips in advance based on insider information.

SEBI is expected to recommend development of simpler and low-risk products for retail investors.

Industrial output declines 2.2% in June: Factory output contracted 2.2 per cent in June from a year earlier. Among the 22 industry groups in the manufacturing sector, 13 recorded negative growth in June. The manufacturing sector, which accounts for over 75 per cent of the IIP, contracted 2.2 per cent in June compared with a 3.2 per cent drop a year earlier.

Exports show double-digit uptick for first time in 2 years: India exported goods worth $25.83 billion in July, a growth of 11.64 per cent propelled by higher demand for pharmaceuticals, textiles, chemicals and petrochemicals, and a falling rupee. A sharp fall in gold and silver imports led to a 6.12 per cent decrease in overall imports, to $38.10 billion in July.

SBI will merge an associate bank by end-Sept: SBI, the country's largest lender, is ranked 60th globally.

Strengthen inspection of units financed: The Finance Ministry has asked public sector banks to diligently conduct quarterly inspection of units/enterprises jointly financed by them.

Finance firms set to launch ATMs as demand spreads: Tata Communications Payment Solutions (TCPL), a wholly-owned subsidiary of Tata Communications, plans to set up 15,000 ATMs in India under the brand name, Indicash. The reason for companies wanting to get into this segment is largely due to the fact that despite banks setting up ATMs averaging a growth of 23-25 per cent, the deployment has been primarily in Tier-1 and Tier-2 cities. This leaves the semi-urban and rural areas without access to services, such as ATMs.

Class action suits to soon be a reality in India: Shareholders and depositors will now have a statutory right to claim compensation against not only erring managements but also auditors, consultants and advisors to such managements. Class action is a right to members or deposit holders or their representatives to file an application before a tribunal for restraining a company from some specified acts. The shareholders or depositors can claim damages against a company, directors, auditors, experts and advisors for their wrongful conduct.

Banks get IRDA nod to become insurance brokers: But the regulations do not mandate banks to become insurance brokers. All banks may not readily opt to take up the role of a broker. This is because many banks have set up insurance joint ventures and may not be inclined to sell other insurance companies' products through their networks. Earlier, banks were able to distribute insurance products only as corporate agents under a bancassurance model. The existing regulations stipulated that each bank can distribute only one life insurance, one general insurance and health insurance company's products.

New deposit scheme from LIC Housing Fin offers 9.5%: LIC Housing Finance Ltd has launched a public deposit scheme "Sanchay" whereby it will offer the highest interest rate of 9.50 per cent on five-year deposits.

General insurers file PIL to tackle uninsured vehicles issue: General insurance companies have filed a public interest litigation in the Supreme Court to get a direction to strictly enforce the provisions of the Motor Vehicle Act, which makes it a criminal offence to ply a vehicle without insurance. A report by ICICI Lombard General Insurance said the number of uninsured vehicles is estimated in the range of 40 per cent in the case of cars and 70 per cent in the two-wheeler segment.

Life insurance industry aims to improve penetration to 5%: The life insurance industry will strive to raise insurance penetration and insurance density in the country to 5 per cent and $100 by the year 2020. Currently, India's life insurance penetration is 3.2 per cent (2012-13) and life insurance density is $43 (2012-13).

11 public sector bank GMs elevated as Executive Directors: Rakesh Sethi, currently General Manager at Bank of India, has been appointed Executive Director, Union Bank of India. Animesh Chauhan, General Manager at Bank of Baroda, has been appointed Executive Director at the Central Bank of India. K.K. Sansi, General Manager at Oriental Bank of Commerce, has joined Punjab & Sind Bank as an Executive Director. Krishna Guha has joined Dena Bank as an Executive Director. Prior to this, she was General Manager at Allahabad Bank. P.S. Rawat will move from Bank of India, where he was a General Manager, to

Canara Bank as an Executive Director. Arun Srivastava has been appointed an Executive Director at Bank of India. Prior to this, he was General Manager at Bank of Baroda. R. Koteeswaran has been appointed as an Executive Director at Bank of India. He is currently General Manager at Bank of Baroda. Mukesh Jain will move from Dena Bank to Punjab & Sind Bank as Executive Director, B.B. Joshi has been appointed as an Executive Director at Bank of Baroda. Joshi is currently a General Manager at Bank of India. Jaikumar Garg has been appointed Executive Director at UCO Bank. He was General Manager at Corporation Bank. T.K. Srivastava, who is currently General Manager at Union Bank, has been appointed Executive Director in Syndicate Bank.

RBI to transfer Rs 33,010-cr surplus profit to Government: This amount represents transfer of surplus profit by the RBI to the Government for the year ended June 30, 2013.

e-filing of I-T returns zooms: Till August 5, the Central Board of Direct Taxes (CBDT) had received 123.03 lakh e-filed returns. This is 68.3 per cent higher than 73.11 lakh returns e-filed in the corresponding period last year.

External administrators to service PSU insurers till in-house entity matures: Public sector general insurers are likely to continue availing themselves of the services of external third party administrators (TPAs) to settle medical insurance claims even after setting up a common in-house entity to settle such claims. New India Assurance, the country's largest general insurance company, has a tie-up with 14 external TPAs, while United India Insurance has a tie-up with 13 TPAs. The joint venture TPA entity of public sector insurers is expected to be fully operational by April next year.

State Bank to expand 'point of sale' terminals: SBI plans to deploy over 1.25 lakh point-of-sale (PoS) terminals in the next 18 months at various merchant outlets and counters at branches across the country. PoS terminals help customers carry out cashless transactions at merchant outlets by swiping credit/ debit cards on the PoS machine. Further, the terminals also facilitate withdrawal of cash (up to a maximum of Rs 1,000 a day) using debit cards at designated merchant outlets.

Microfinance sector heading towards consolidation: The microfinance sector has evolved in two phases — first was the establishment of not-for-profit Trusts for undertaking micro finance activity and the second was the conversion of the Trusts into non-banking finance companies (NBFCs). The Reserve Bank of India has prescribed a 12 per cent margin cap (difference between cost of funds and lending rate). This restriction will trigger a search for economies of scale. Smaller MFIs, which typically have higher cost of funds, could get merged with the larger ones. With effect from 1st April, 2014 margin caps cannot exceed 10 per cent for large MFIs (loans portfolios exceeding Rs100 crore) and 12 per cent for the others.

State-run banks soft targets for fraud: Nationalised banks account for just 17.5 per cent of the fraud cases that have been registered in India's banking system in the past four years but over 83 per cent of the cumulative losses of Rs 29,910 crore due to such acts occurred at state-run banks. In all, 1.6 lakh frauds took place between 2009-10 and 2012-13.

Govt to hike R&D spend to 2% of GDP: According to Union Minister for Science and Technology S. Jaipal Reddy, the Government plans to increase the research and development budget up to two per cent of the gross domestic product during the 12th Plan.

Loan for local retailers: The Finance Ministry has asked public sector banks to enhance lending to the retail trade segment. Further, to encourage banks to lend more to retail trade, the ministry has asked Small Industries Development Bank of India (SIDBI) to examine whether the trust run by it can also provide guarantee cover against default in loan payments.

NPCI rolls out chip-based debit cards: To provide better security for debit card holders, payment services provider National Payments Corporation of India (NPCI) has rolled out chip-based cards under the RuPay brand. These cards are based on international specifications that provide protection to banks and their customers against card skimming and counterfeiting frauds. Bank of Baroda and Saraswat Co-operative Bank have become the first two banks to issue these cards.

Cabinet panel approves 10% disinvestment in IOC: The Cabinet Committee on Economic Affairs (CCEA) has approved to disinvest 10 per cent Government's stake in Indian Oil Corporation Ltd. Government currently holds 78.92 per cent in the company.

Govt plans to make hydro power purchase mandatory: According to Minister of State for Power (Independent Charge) Jyotiraditya M. Scindia, to facilitate more hydro power generation in the country, the Power Ministry plans to make it mandatory for electricity distribution utilities to buy a percentage of their requirement from hydel stations like RPOs (Renewable Purchase Obligations).

Sourcing norms eased for multi-brand retail: While the condition for mandatory 30 per cent sourcing from the domestic small sector remains in the policy, the definition of small sector has been expanded to include units with total investment in plant and machinery up to $2 million instead of the earlier threshold of $1 million. Moreover, foreign retailers will not have to change their vendors once they outgrow the $2 million investment threshold as the new rules say that the "small industry" status would be reckoned only at the time of first engagement with the retailer. Another big relief for foreign retailers would be the clarification brought about in the condition that at least 50 per cent of total FDI of a minimum of $100 million brought in shall be invested in 'back-end infrastructure'. As per revised provision, the mandatory investment in backend infrastructure should be restricted to just the first tranche of investments brought in. The conditions on allowing retails sales outlets only in cities with a population of more than 10 lakh have also been diluted. It has now been left to State Governments to decide whether they want outlets to come up in smaller cities.

Stable exchange rate is important to attract investments: RBI Governor, D. Subbarao, having a stable exchange rate is important to attract investments, which in turn will spur growth.

Banks want RBI to ease provisioning norms for restructured loans: Bankers have sought some respite from the RBI guidelines which mandate banks to maintain an additional 75 basis points provisioning on restructured loans from the current 2.75 per cent.

Delhi Aerocity hotels: Cabinet Committee on Investment has approved a plan that will see the setting up of 13 hotels at Delhi Aerocity which will allow about 5,000 rooms to open up. Earlier, security agencies had raised objections that terrorists could use these hotels to target approaching aircrafts.

Govt to give export sector Rs 2,000-cr prop: Finance Minister P. Chidambaram has approved additional funds of Rs 2,000 crore in the form of interest sops for clearing dues and a rise in the rate of interest subvention. Rs 1,550 crore would be used to clear existing dues and the remaining Rs 450 crore would go towards interest subvention rate hike from 2 per cent to 3 per cent.

MOCK TEST

01 As per Weaver Card Scheme, what is the maximum amount of loan that can be granted to a beneficiary?

a) Rs 50,000 b) Rs 100,000
c) Rs 200,000 d) Rs 500,000

02 What is the maximum period within which a term loan granted under Weaver Credit Card Scheme should be repaid?

a) 1 year b) 2 years c) 3 years d) 5 years

03 Interest subvention on pre and post shipment rupee export credit for certain employment oriented export sectors has been increased by the Government of India from the present _____to _____ with effect from August 1, 2013.

a) 1, 2 b) 2,3 c) 3,4 d) 1,3

04 Grid-based Cheque Truncation System (CTS) has been launched in ______ covering several States/Union territories with the objective of streamlining the procedures in cheque clearing system.

a) Chennai and Kolkatta b) Mumbai & Kolkatta
c) Chennai and Mumbai d) Bangaluru & Mumbai

05 According to the concept of uniform holidays implemented for RTGS/NEFT/NECS since 2008, these centralised payment systems are functional on days when_______________

a) one of the four metro cities is observing working day, irrespective of holidays at other locations.
b) all the four metro cities are observing working day, irrespective of holidays at other locations.
c) two of the four metro cities are observing working day, irrespective of holidays at other locations.
d) Mumbai metro city is observing working day, irrespective of holidays at other locations.

06 Under grid-based CTS clearing, all cheques drawn on bank branches falling in the grid jurisdiction are treated and cleared as local cheques on ____ basis.

a) T+0 b) T+1 c) T+2 d) T+3

07 RBI has decided to put in place the uniform holiday arrangement at the three CTS locations with effect from October 7, 2013. Which of the following is not correct in this regard?

a) The CTS centers in New Delhi, Chennai and Mumbai will adopt RTGS holidays as uniform holidays for the respective grid.
b) CTS operations will be closed on such days when all the participating states in the grid are observing holidays, even though RTGS is working on such days
c) The President of the respective CTS location will notify the list of such uniform holidays well in advance to enable the participating banks to put in place inward clearing processing infrastructure at the grid location.
d) None of these

08 Under CTS, inward clearing is generally processed in a centralised manner by banks at the CTS location. Where the reference to base branch is required and the base branch is closed on account of local holiday, what should the drawee bank do?

a) The drawee bank at the grid location may return the instrument to the presenting bank under return reason with the description “drawee branch is closed on account of local holiday”
b) The drawee bank at the grid location may pay the instrument and advise presenting bank its right to recall funds when reference is made to drawee branch and cheque cannot be paid due to certain irregularity.
c) The matter be sorted out by the drawee bank at its risk and responsibility as clearing operations cannot be stalled.
d) The drawee bank at the grid location may return the instrument to the presenting bank under return reason with the description “need reference to the drawee branch which is closed on account of local holidays/issues”

09 As per latest guidelines issued by RBI, banks are permitted to exceed the limit of 25 per cent of total investments under the Held to Maturity (HTM) category provided the excess comprises only SLR securities, and the total SLR securities held in the HTM category is not more than ____per cent of their Demand and Time Liabilities (DTL) as on the last Friday of the second preceding fortnight.

a) 24.50% b) 24.00%
c) 23.50% d) 23.00%

10 The market yield on Govt securities and their market prices are____

a) directly related b) inversely related
c) equally related d) Not related

11 As per RBI guidelines, banks may shift investments from Available for Sale and Held for Trading to Held Till Maturity category with the approval of the Board of Directors once a _____.

a) month b) quarter
c) half year d) year

12 The ceiling for FDI in Asset Reconstruction Companies has been increased from ___ to ___.

a) 26%; 49% b) 26%; 51%
c) 49%; 74% d) 26%; 74%

13 The investment by Foreign Institutional Investors (FIIs) in the equity capital of ARCs is permitted up to _____.

a) Nil b) 26% c) 49% d) 74%

14 Foreign Institutional Investors (FIIs) can invest in Security Receipts (SRs) issued by the Asset Reconstruction Companies up to ____per cent of each tranche of scheme of Security Receipts subject to condition that investment of a single FII in each tranche of scheme of SRs shall not exceed ___per cent of the issue.

a) 49%; 10% b) 49%; 20%
c) 74%; 10% d) 74%; No limit

15 The total shareholding of an individual FII in an Asset Reconstruction Company shall not exceed ___% of the total paid-up capital.

a) 5% b) 10% c) 26% d) 20%

16 The nominated banks/nominated agencies and other entities allowed to import gold should ensure that at least ____%, of every lot of import of gold imported to the country is exclusively made available for the purpose of exports.

a) 10% b) 20% c) 30% d) 50%

17 Which of the following statements is not correct about import of gold?

a) Import of gold in the form of coins and medallions is prohibited.
b) Nominated banks shall make available gold for domestic use only to the entities engaged in jewellery business/bullion dealers and to banks authorised to administer the Gold Deposit Scheme against full upfront payment.
c) Entities/units in the SEZ and EoUs, Premier and Star trading houses are permitted to import gold exclusively for the purpose of exports only.
d) None of these

18 Interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits. However, RBI has decided to give banks the freedom to offer interest rates without any ceiling on NRE deposits with maturity of ____ years and above.

a) 1 year b) 2 year c) 3 year d) 5 year

19 Interest rate on which of the following types of deposits can be higher than those offered on comparable domestic rupee deposits if these are with maturity of 3 years and above?

a) NRO b) NRE c) FCNR
d) Both NRO and NRE only e) All of these

20 The rate of interest on FCNR(B) deposits of 3 to 5 years maturity has been increased from ____basis points over LIBOR to _____basis points over LIBOR with effect from the close of business in India as on August 14, 2013.

a) 100; 200 b) 200; 300
c) 100; 300 d) 300; 400

21 Which of the following types of deposit liabilities are excluded for computation of Net Demand and Time Liabilities (NDTL) and for maintenance of CRR and SLR?

a) Foreign Currency Non-Resident Bank [FCNR (B)] deposits.
b) Non-Resident (External) Rupee (NRE) deposit.
c) Non Resident Ordinary Deposits
d) Both (a) and (b) only
e) None of these

22 RBI has decided that with effect from fortnight beginning August 24, 2013, incremental _____ deposits with reference base date of July 26, 2013, and having maturity of three years and above, mobilised by banks will be exempt from maintenance of CRR and SLR.

a) FCNR (B) deposits b) NRE deposits
c) NRO deposits d) Both (a) and (b)
e) None of these

23 Resident individuals were permitted to repatriate up to USD 200,000 per financial year for any Capital account or current account transaction. RBI has reduced the existing limit of USD 200,000 per financial year to USD _______per financial year (April - March).

a) 150,000 b) 100,000
c) 75,000 d) 50,000

24 AD Category – I banks can allow remittance up to USD 75,000 per financial year, under the Liberalised Remittance Scheme, for which of the following purpose(s)? any permitted current or capital account transaction or a combination of both. Further, the following changes / clarifications in regard to the remittances under LRS will come into effect from 14 August, 2013

a) any permitted current account transaction
b) any permitted capital account transaction
c) any current or capital account transaction or a combination of both
d) any permitted current or capital account transaction or a combination of both

25 Liberalised Remittance Scheme cannot be used for which of the following purpose?

a) For acquisition of immovable property, directly or indirectly, outside India
b) For making remittances for any prohibited or illegal activities such as margin trading, lottery etc.,
c) For pursuing education or for medical treatment
d) Both (a) and (b) only
e) All of these

26 The remittances abroad towards gift and donation by a resident individual under Liberalised Remittance Scheme is restricted up to ______.

a) USD 5000 b) USD 10,000
c) USD 50,000 d) USD 75,000
e) USD 200,000

27 RBI has permitted that a resident individual can make a rupee gift to a NRI/PIO who is a close relative of the resident individual by way of crossed cheque /electronic transfer and the amount should be credited to the Non-Resident (Ordinary) Rupee Account (NRO) account of the NRI / PIO. The limit for gift in Rupees by Resident Individuals to NRI close relatives within LRS has been reduced by RBI from USD 200,000 to USD ______per financial year

a) 150,000 b) 100,000
c) 75,000 d) 50,000

28 A resident individual is allowed to lend to a Non resident Indian (NRI)/ Person of Indian Origin (PIO) close relative by way of crossed cheque /electronic transfer. Which of the following conditions is not correct in this regard?

a) the loan is free of interest and the minimum maturity of the loan is one year;
b) the loan amount should be within the overall limit under the Liberalised Remittance Scheme of USD 200,000 per financial year available for a resident individual;
c) the loan shall be utilised for meeting the borrower's personal requirements or for his own business purposes in India;
d) The loan amount should be credited to the NRO a/c of the NRI /PIO
e) Repayment of loan shall be made by way of inward remittances through normal banking channels or by debit to the Non-resident Ordinary (NRO) / Non-resident External (NRE) / Foreign Currency Non-resident (FCNR) account of the borrower or out of the sale proceeds of the shares or securities or immovable property against which such loan was granted.

29 The limit on total overseas direct investment (ODI) of an Indian Party in all its Joint Ventures (JVs) and / or Wholly Owned Subsidiaries (WOSs) abroad engaged in any bonafide business activity has been reduced from 400 per cent to _____ per cent of the net worth of the Indian Party as on the date of the last audited balance sheet under the Automatic Route.

a) 100 b) 200 c) 300 d) None

30 The limit on investing in the overseas unincorporated entities in the energy and natural resources sectors, under the automatic route has been reduced from the existing limit of ____ per cent of the net worth of the Indian company to ____ per cent of the net worth of the Indian company.

a) 400%; 300% b) 400%; 200%
c) 400%; 100% d) 200%; 100%

31 The incentive provided by RBI for exchange of soiled notes in denominations up to Rs 50/- over the counter at bank branches, has been revised from _____ to ____ per packet

a) Rs 1; Rs 2 b) Rs 1; Rs 1.5
c) Rs 2; Rs 2.5 d) Rs 2; Rs 3

32 As an incentive for installation of Machines which extend cash related retail services to the public like – (i) Coin Pouch Vending Machines; (ii) Note Packet Vending machines; (iii) Cash Acceptors; (iv) Cash Recyclers; (v) Desktop banknote authenticating machines; (vi) ATMs dispensing lower denomination notes, RBI will provide _____% of cost of installation in urban / metropolitan areas and ____% in semi-urban and rural areas.

a) 50%; 50% b) 75%; 50%
c) 50%; 75% d) 25%; 50%

33 RBI will provide incentive for installation of Note Sorting Machines (NSMs), at the rate of 50% of cost of installation in urban / metropolitan areas and 75% in semi-urban and rural areas to which of the following type of banks?

a) RRBs b) Urban Co op Banks
c) Public Sector Banks d) Both (a) and (b) only
e) All of these

Recalled Questions

34 A customer has given you a sealed packet for safe custody. The relationship between bank and customer is _
a) Bailor: Bailee b) Bailee: Bailor
c) Debtor: Creditor d) Lessor: Lessee

35 What is the rate of subsidy in the case of a PMEGP beneficiary who belongs to general category and project is in urban area?
a) 15% of the project cost b) 25% of the project cost
c) 15% of the loan amount d) 35% of the project cost

36 What should be the share of the sponsor bank in the capital of a Regional Rural Bank?
a) 15% b) 35% c) 50% d) None

37 In banking, generally Debt Service Coverage ratio of ___ is considered as ideal.
a) 2:1 b) 1.5:1 c) 1.25:1 d) 1.75:1

38 The maximum amount of compensation that can be awarded by an Ombudsman is restricted to____.
a) Rs 5 lakh b) Rs 10 lakh
c) Rs 20 lakh d) Rs 50 lakh

39 Who decides the interest rate payable on Saving Bank deposits maintained with a commercial bank?
a) The bank concerned as interest rates on SB deposits have been deregulated.
b) Indian Bank Association
c) Government of India so that these are at par with interest rates offered by post offices
d) Reserve Bank of India.

40 Scheduled Commercial Banks are required to maintain Cash Reserve Ratio as per which of the following?
a) Section 24 of the Banking Regulation Act.
b) Section 42 (1) of the Banking Regulation Act.
c) Section 42 (1) of the Reserve Bank of India Act.
d) Section 24 of the Reserve Bank of India Act
e) None of these as these are now fixed by RBI.

41 In case of which of the following types of charges, bank can sell the security charged to the bank without requiring intervention of the court?
a) Lien b) Pledge c) Hypothecation
d) Both (a) & (b) only e) None of these

42 What is the limitation period for filing suit to obtain decree in respect of the property mortgaged to the bank?
a) 12 years b) 3 years c) 30 years d) None

43 For classification as micro enterprise in manufacturing sector the original investment in plant and machinery should not exceed _____ and for classification as micro enterprise in service sector, the original cost of equipment should not exceed_____.
a) Rs 25 lakh; Rs 10 lakh b) Rs 10 lakh; Rs 25 lakh
c) Rs 5 lakh; Rs 2 lakh d) Rs 5 crore; Rs 2 crore

44 Which of the following is incorrect about a minor?
a) A minor can draw a negotiable instrument.
b) A minor can endorse or negotiate a negotiable instrument without making himself liable.
c) A minor can draw, endorse or negotiate a negotiable instrument and can bind all others except himself.
d) A minor can draw, endorse or negotiate a negotiable instrument and bind himself and all others.

45 Banks prefer filing case in Lok Adalats because there is no court fees. Upto how much amount, the cases can be filed in Lok Adalats?
a) Rs 5 lakh b) Rs 10 lakh
c) Rs 20 lakh d) None

46 Electronic clearing service is used for making payment of various utility bills as well as for distribution of dividends by corporates. What type of service it is called when a single account is debited and number of accounts are credited as in the case of distribution of dividends.
a) ECS (Debit) b) ECS (Credit)
c) ECS (Debit) or ECS (Credit) depending on the balance in the account to be debited.
d) ECS (Debit) or ECS (Credit) depending on the balance in the account to be credited.

47 On which of the following types of property charge can be created by equitable mortgage?
a) Land and Building located at notified place only.
b) Land and Building located only in an urban area.
c) Land and Building located anywhere in India except where there is some restriction from State Govt or Cantonment area.
d) Land & Building located anywhere in India except in rural area.

48 A term loan is outstanding against Mr. A which is long overdue. On which of the following accounts of A, bank can exercise right of set off immediately for adjustment of the loan?
a) Saving Bank account in the name of A jointly with his wife.
b) Fixed Deposit in the name of A maturing next month.
c) Overdraft in the name of A in which there is some unutilized limit.
d) None of these

49 What is the status of a nominee in case of death of the depositor who has appointed him as nominee?
a) He is trustee of the deceased depositor.
b) He is entitled to the balance outstanding as owner.
c) He is entitled to the balance outstanding as co owner with the legal heirs.
d) He is the trustee of legal heirs.

50 Which of the following represents definition of Negative Lien?
a) Undertaking by borrower that he will not raise loan from any other bank without permission of the existing bank.
b) Undertaking by the borrower that he will not sell goods hypothecated to the bank without consent of the bank.
c) Undertaking by the borrower that he will not sell the security charged to the bank without consent of the bank.
d) Undertaking by the borrower that he will not create charge or sell a security though it is not charged to bank.

51 Which of the following types of transactions is required to be reported on Cash Transaction Report (CTR) submitted to Financial Intelligence Unit?
a) When there is a single cash deposit or cash withdrawal of Rs 10 lakh and above from an account.
b) When there is a cash deposit or cash withdrawal of Rs 10 lakh and above from an account in a single day.
c) When there is a single cash deposit or cash withdrawal of more than Rs 10 lakh from an account.
d) When there is a cash deposit or cash withdrawal of more than Rs 10 lakh from an account in a month.

52 What is the meaning of Truncation of a cheque?
a) Converting a paper cheque into electronic image.
b) Destroying a paper cheque after obtaining its electronic image.
c) Cancelling a paper cheque after converting it to electronic image so that it can not be used again.
d) Keeping a scanned record of a cheque in computer.

53 Why banks obtain photograph of a prospective customer while opening the account.
a) For identification of customer
b) To avoid fictitious transactions
c) To build business relationship
d) To use as introduction for others

54 RBI has issued star series notes for denomination of Rs 10, Rs 20, Rs 50 and Rs 100. What is the purpose of issue of these Notes?
a) To commemorate the 60 years of independence.

b) To replace torn and mutilated notes.
c) As part of clean note policy of RBI
d) To replace defectively printed notes.

55 It is observed that the cheques printed by all banks are almost similar in format. This format of cheque has been prescribed in which of the following acts or by authority?
a) Negotiable Instruments Act
b) Banking Regulation Act
c) Prescribed by Indian Banks Association
d) None of these

56 What is the extent of the liability of an introducer in an account?
a) The introducer is liable for any fraud committed by the account holder.
b) The introducer is liable for any overdraft raised by customer of given to him through oversight.
c) The introducer has no legal liability. His role is limited to identifying the customer and his address at the time of opening the account.
d) The introducer has no legal liability as he is not expected to know any thing about the customer.

57 A cheque written in three different inks, three different handwritings and two languages is presented for payment. What should be done by the bank?
a) Bank should pay the cheque with utmost caution as it might have been materially altered.
b) Bank should not pay the cheque as it tantamounts to material alteration and require confirmation of the drawer.
c) Bank may pay the cheque in ordinary course of business if cheque is otherwise in oder.
d) Bank may pay the cheque after obtaining telephonic confirmation from the drawer.

58 A cheque bears across its face addition of the name of a banker without two parallel lines. What is the type of crossing?
a) General Crossing b) Special Crossing
c) No crossing as two parallel lines are not there.
d) Ambiguous crossing

59 What is the limitation period for filing a case in a Consumer court?
a) Two years from the date of cause of action.
b) Two years from the date of purchase of good or service.
c) Three year from the date of cause of action.
d) One month from the date of purchase.

60 To be eligible for raising loan under PMEGP, the annual family income of the beneficiary should not be more than___.
a) Rs 100,000 b) Rs 200,000
c) minimum prescribed for Below poverty line
d) None of these as there is no income ceiling.

61 A loan is guaranteed by a surety. When the Principal Debtor failed to repay the loan, bank asked the surety to pay which was paid by him. On making payment, the surety became entitled to all rights and remedies which the bank had against the principal debtor. This right of surety is called______.
a) Right of Foreclosure b) Right of Redemption
c) Right of Subrogation d) Right of Lien

62 For how much period an NPA account remains sub standard after which it is classified as doubtful asset even if there is enough security to cover the advance?
a) 12 monhts b) 18 months c) 24 months d) None

63 Banks are required to use Turnover Method for calculating working capital requirements of the SSI borrowers where working capital limits are up to Rs 5 crore. This method assumes a working capital cycle of how many months?
a) 1 month b) 2 months c) 3 months d)4 months

64 When a banker may suffer loss due to movement of interest rates in the market, this risk is called___
a) Credit Risk b) Operational Risk c) Market Risk
d) Combination of Credit Risk & Market Risk

65 In which of the following situations, the net working capital of a firm will be negative?
a) When current assets are more than current liabilities
b) When quick assets are less than current liabilities
c) When current liabilities are more than current assets
d) When intangible assets are more than the net worth.

66 Bank A and Bank B granted a cash credit limit of Rs 50 lakh to a borrower under a consortium and land was offered as a common security and pari passu charge was created. A Bank's share was Rs 20 lakh and B Bank's share in the limit is Rs 30 lakh. The account became NPA. The outstanding of Bank A was Rs 25 lakh and that of Bank B also Rs 25 lakh. The land was sold and only Rs 20 lakh. How this amount will be shared between two banks?
a) Both banks will get equal amount as in the case of pari passu charge all lenders have equal rights.
b) Both banks will get equal amount in proportion to their outstanding on the date of sale of land.
c) The proceeds will be shared between A & B in the ratio of 20: 30 i.e. the ratio of limits sanctioned.
d) The proceeds will be shared between A & B in the ratio of 20:25 i.e. the ratio of the amount outstanding within the sanctioned limits.

67 Risk arising out of defective documents of a loan is called______risk.
a) Legal Risk b) Documentation Risk
c) Default Risk d) Credit Risk
e) Combination of Credit Risk and Legal Risk

68 What is the target for Indian Commercial Banks for lending to weaker sections of the society?
a) 10% of the total advances
b) 10% of the priority sector advances.
c) 10% of the net bank credit.
d) 25% of the priority sector advances
e) Both (c) & (d)

69 What is the major difference between sanctioning a term loan and issue of Deferred Payment Guarantee (DPG)?
a) The level of appraisal is materially different between two activities.
b) Outlay of funds
c) The type of activity for which term loan can be sanctioned is different than for which DPG can be issued.
d) Both (a) & (b)

70 A service enterprise will be treated as medium enterprise if original investment in equipment is _____
a) more than Rs 10 lakh but up to Rs 2 crore
b) more than Rs 25 lakh but up to Rs 5 crore.
c) more than Rs 2 crore but up to Rs 5 crore
d) more than Rs 2 crore but up to Rs 10 crore.

71 A bank initiated action against a borrower under Sarfaesi Act and sent him 60 days notice for making payment. The borrower, being aggrieved with the action of the bank, makes a representation to the bank. The bank is required to send reply to the representation within how many days?
a) within one week of receiving the representation.
b) within one week from the date of representation.
c) within one week from the date of notice.
*d) within 15 days of receiving the representation.

ANSWERS

1	C	11	D	21	E	31	A	41	D	51	D	61	C
2	C	12	C	22	D	32	C	42	A	52	A	62	A
3	B	13	D	23	C	33	D	43	A	53	A	63	C
4	C	14	D	24	D	34	B	44	D	54	D	64	C
5	A	15	B	25	D	35	A	45	C	55	D	65	C
6	B	16	B	26	D	36	B	46	B	56	C	66	D
7	D	17	D	27	C	37	A	47	C	57	C	67	A
8	D	18	C	28	B	38	B	48	D	58	B	68	D
9	A	19	B	29	A	39	A	49	D	59	A	69	B
10	B	20	D	30	C	40	C	50	D	60	D	70	C

EXCHANGE OF NOTES AND COINS INCENTIVES & PENALTIES

1. The Scheme of Incentives and Penalties for bank branches including currency chests has been introduced in order to ensure that all bank branches provide better customer service to members of public with regard to exchange of notes and coins.

2. Incentives: As per the Scheme banks are eligible for the following financial incentives for providing facilities for exchange of notes and coins:

1. Opening of and maintaining currency chests at centers having population of less than 1 lakh in under banked States:
(a) Capital Cost: Reimbursement of 50% of capital expenditure subject to a ceiling of Rs.50 lakh per currency chest. In the North Eastern region upto 100% of capital expenditure is eligible for reimbursement subject to the ceiling of Rs.50 lakh.
(b) Revenue cost: Reimbursement of 50% of revenue expenditure for the first 3 years. In the North Eastern region 50% of revenue expenditure will be reimbursed for the first 5 years.

2. Exchange of soiled notes/ adjudication of mutilated banknotes over the counter at bank branches
a. Exchange of soiled notes - Rs.2/- per packet for exchange of soiled notes in denominations up to Rs.50/-
b. Adjudication of mutilated notes - Rs.2/- per piece

3. Distribution of coins over counter:
(i) Rs 25/- per bag for distribution of coins over the counters.
(ii) The incentives would be paid on the basis of net-withdrawal from currency chest, without waiting for claims from banks.

4. Establishment of Coin Vending Machines: The existing level of incentive of (a) Reimbursement of 50% of capital expenditure in case of urban/metro centers and reimbursement of 75% of capital expenditure in case of rural and semi urban centers and (b) reimbursement of revenue cost @ Rs 25/- per bag, as applicable to commercial banks maintaining currency chests would now be applicable to all the scheduled commercial banks, including urban co-operative banks and regional rural banks (irrespective of whether they maintain currency chests or not).

5. Installation of Machines which extend cash related retail services to the public: 50% of cost of installation in urban / metropolitan areas and 75% in semi-urban and rural areas.

6. Installation of Note Sorting Machines (NSMs):
Applicable only to RRBs and UCBs-
50% of cost of installation in urban / metropolitan areas and 75% in semi-urban and rural areas.

3. Penalties: Penalties to be imposed on banks for deficiencies in exchange of notes and coins/remittances sent to RBI/operations of currency chests etc. are as follows:

1. Shortages in soiled note remittances and currency chest balances:
(i) For notes in denomination upto Rs.50: Rs.50/- per piece in addition to the loss;
(ii) For notes in denomination of Rs.100 & above: Equal to the value of the denomination per piece in addition to the loss.
Shortages of 100 pieces and above per remittance shall be debited immediately. Penalty may be levied on reaching a limit of 100 pieces in a cumulative manner.

2. Counterfeit notes detected in soiled note remittances and currency chest balances:
Penalty on account of detection of counterfeit notes by RBI from soiled note remittance of banks and in currency chest balances will be three times the notional value of counterfeit notes.

In case it is found during RBI Inspection, Snap Inspection etc. that a bank branch or currency chest has detected counterfeit notes but not reported the same to RBI or Police, strict regulatory measures against the bank including stringent disciplinary action and /or imposition of monetary penalty, will be taken by RBI. Penalty will be levied immediately for any counterfeit note detected.

3. Mutilated notes detected in soiled note remittances and currency chest balances: Rs.50/- per piece irrespective of the denomination. Mutilated notes of 100 pieces and above per remittance shall be debited immediately. Penalty may be levied on reaching a limit of 100 pieces in a cumulative manner.

4. Non-compliance with operational guidelines by currency chests detected by RBI officials: a) Non-functioning of CCTV; b) Branch cash/documents kept in strong room; c) Non-utilization of NSMs for sorting of notes (NSMs not used for sorting of high denomination notes received over the counter or not used for sorting notes remitted to chest/RBI):
Penalty of Rs.5000 for each irregularity;
Penalty will be enhanced to Rs.10,000 in case of repetition.
Penalty will be levied immediately.

5. Violation of any term of agreement with RBI (for opening and maintaining currency chests) or deficiency in service in providing exchange facilities, as detected by RBI officials e.g. a) Non issue of coins over the counter to any member of public despite having stock; b) Refusal by any bank branch to exchange soiled notes / refusal by any currency chest branch to adjudicate mutilated notes tendered by any member of public; c) Non conduct of surprise verification of chest balances, at least at bimonthly intervals, by officials unconnected with the custody thereof and by the officials from the Controlling Office once in six months; d) Denial of facilities/services to linked branches of other banks; e) Non acceptance of lower denomination notes (i.e. denomination of Rs. 50 and below) tendered by members of public and linked bank branches; f) Detection of mutilated/counterfeit notes in reissuable packets prepared by the currency chest branches:
Penalty will be Rs.10,000 for any violation of agreement or deficiency of service. Rs.5 lakh in case there are more than 5 instances of violation of agreement/deficiency in service by the branch.
The levy of such penalty will be placed in public domain.
Penalty will be levied immediately.

VARIOUS RATES AT GLANCE		
Bank Rate	**10.25%**	15.07.2013
CRR	**4.0%**	09.02.2013
SLR	**23.0%**	11.08.2012
Repo Rate	**7.25%**	03.05.2013
Reverse Repo Rate	**6.25%**	03.05.2013
MSF Rate	**10.25%**	15.07.2013