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RBI Governor announces Annual Policy Statement for the year 2008-09

Dr. Y. Venugopal Reddy, Governor, in a meeting with Chief Executives of major commercial banks today presented the Annual Policy Statement for the Year 2008-09. This Statement consists of two parts: Part I. Annual Statement on Monetary Policy for the Year 2008-09; and Part II. Annual Statement on Developmental and Regulatory Policies for the Year 2008-09.

Highlights

- High priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while sustaining the growth momentum.
- Swift response on a continuous basis to evolving adverse international and domestic developments through both conventional and unconventional measures.
- Emphasis on credit quality and credit delivery while pursuing financial inclusion.
- Bank Rate, Reverse Repo Rate and Repo Rate kept unchanged.
- Scheduled banks required to maintain CRR of 8.25 per cent with effect from the fortnight beginning May 24, 2008.
- GDP growth projection for 2008-09 in the range of 8.0- 8.5 per cent.
- Inflation to be brought down to around 5.5 per cent in 2008-09 with a preference for bringing it close to 5.0 per cent as soon as possible. Going forward, the resolve is to condition policy and perceptions for inflation in the range of 4.0-4.5 per cent so that an inflation rate of around 3.0 per cent becomes a medium-term objective.
- M3 expansion to be moderated in the range of 16.5-17.0 per cent during 2008-09.

- Deposits projected to increase by around 17.0 per cent or Rs.5,50,000 crore during 2008-09.
- Adjusted non-food credit projected to increase by around 20.0 per cent during 2008-09.
- Active demand management of liquidity through appropriate use of the CRR stipulations and open market operations (OMO) including the MSS and the LAF.
- Introduction of STRIPS in Government securities by the end of 2008-09.
- A clearing and settlement arrangement for OTC rupee derivatives proposed.
- Domestic crude oil refining companies would be permitted to hedge their commodity price risk on overseas exchanges/markets on domestic purchase of crude oil and sale of petroleum products based on underlying contract.
- Currency futures to be introduced in eligible exchanges in consultation with the SEBI; broad framework to be finalised by May 2008.
- Indian companies to be allowed to invest overseas in energy and natural resources sectors.
- Reserve Bank can be approached for capitalisation of export proceeds beyond the prescribed period of realisation.
- Loans granted to RRBs for on-lending to agriculture and allied activities to be classified as indirect finance to agriculture.
- The shortfall in lending to weaker sections would be taken into account for contribution to RIDF with effect from April 2009.
- RRBs allowed to sell loan assets to other banks in excess of their prescribed priority sector exposure.
- The Reserve Bank to disseminate details of various charges levied by banks.
- Asset classification norms for credit to infrastructure projects relaxed.
- The prudential guidelines for specific off-balance sheet exposures of banks to be reviewed.
- Reserve Bank to carry out supervisory review of banks' exposure to the commodity sector.

- The limit of bank loans to individuals for housing having lower risk weight of 50 per cent enhanced from Rs. 20 lakh to Rs. 30 lakh.
- Consolidated supervision of financial conglomerates proposed.
- Working Group to be set up for a supervisory framework for SPVs/Trusts.
- Inter-departmental Group to review the existing regulatory and supervisory framework for overseas operations of Indian banks.
- All transactions of Rs. one crore and above made mandatory to be routed through the electronic payment mechanism.
- Dispense with the extant eligibility norms for opening on-site ATMs for well-managed and financially sound UCBs.
- Regulations in respect of capital adequacy, liquidity and disclosure norms for systemically important NBFCs to be reviewed.

Details

Domestic Developments

- The advance estimates of the Central Statistical Organisation (CSO) placed real GDP growth at 8.7 per cent for 2007-08, over and above 9.6 per cent in 2006-07.
- On a year-on-year basis, WPI inflation stood at 7.4 per cent at end-March 2008 as compared with 5.9 per cent a year ago. During 2007-08, headline inflation declined from 6.4 per cent at the beginning of the financial year to a low of 3.1 per cent in mid-October before firming up from mid-February 2008 onwards.
- The average price of the Indian basket of international crude increased by 27.6 per cent from US \$ 62.4 per barrel during 2006-07 to US \$ 79.7 per barrel in 2007-08.
- Money supply (M₃) increased by 20.7 per cent (Rs.6,86,096 crore) in 2007-08 as compared with 21.5 per cent (Rs.5,86,548 crore) in 2006-07.
- Reserve money increased by 30.9 per cent (Rs.2,19,326 crore) during 2007-08 as compared with 23.7 per cent (Rs.1,35,935 crore) in the previous year.
- Aggregate deposits of SCBs increased by 22.2 per cent (Rs.5,80,208 crore) during 2007-08 as compared with 23.8 per cent (Rs.5,02,885 crore) in the previous year.
- Non-food credit extended by the scheduled commercial banks (SCBs) increased by 22.3 per cent (Rs.4,19,425 crore) as compared with 28.5 per cent (Rs.4,18,282 crore) in the previous year.

- The incremental non-food credit-deposit ratio for the banking system declined to 72.3 per cent during 2007-08 from 83.2 per cent in 2006-07, 109.3 per cent in 2005-06 and 130.0 per cent in 2004-05.
- The total flow of funds from SCBs to the commercial sector, including non-SLR investments, increased by 21.9 per cent (Rs.4,31,256 crore) in 2007-08 as against 27.3 per cent (Rs.4,22,363 crore) in 2006-07.
- During 2007-08, the financial markets experienced alternating shifts in liquidity conditions.
- The total overhang of liquidity as reflected in the balances under the LAF, the MSS and surplus cash balances of the Central Government taken together increased to the intra-year peak of Rs.2,73,694 crore on March 27, 2008 before declining to Rs.2,43,879 crore on April 25, 2008.
- Movements in interest rates in the domestic financial markets reflected the factors driving changes in liquidity with the banking system during 2007-08.
- The average daily turnover in the foreign exchange market increased to US \$ 57.3 billion at end-March 2008 from US \$ 33.2 billion at end-March 2007.
- Commercial banks' investment in Government and other approved securities increased by 22.9 per cent (Rs.1,81,222 crore) during 2007-08, significantly higher than 10.3 per cent (Rs.74,062 crore) in 2006-07.
- Commercial banks' stock of statutory liquidity ratio (SLR) eligible securities marginally increased to 27.4 per cent of the banking system's net demand and time liabilities (NDTL) in March 2008 from 27.3 per cent in March 2007.
- Interest rates offered by the public sector banks (PSBs) on deposits of above one year maturity moved from the range of 7.25-9.50 per cent in March 2007 to 8.00-9.25 per cent in March 2008.
- The benchmark prime lending rates (BPLRs) of PSBs increased by 75 basis points from a range of 12.25-12.75 per cent to 12.25-13.50 per cent during 2007-08.
- The BSE Sensex (1978-79=100) increased by 19.7 per cent during the year from 13072 at end-March 2007 to 15644 at end-March 2008.
- The weighted average yield on primary issuance of the Central Government's dated securities increased by 23 basis points to 8.12 per cent in 2007-08 from 7.89 per cent in the previous year.

External Developments

- Information available from the DGCI&S indicates that merchandise exports increased by 22.8 per cent in US dollar terms during April-February 2007-08 as compared with 23.2 per cent in the corresponding period of the previous year. Imports showed an increase of 30.1 per cent as compared with 25.2 per cent during the same period.

- While the increase in oil imports was lower at 26.4 per cent as compared with 31.2 per cent, non-oil import recorded a higher growth of 31.8 per cent as compared with 22.6 per cent.
- During April-February 2007-08, the trade deficit widened to US \$ 72.5 billion which was 46.8 per cent higher than the deficit of US \$ 49.4 billion in the corresponding period of the previous year.
- The sustained strength of capital flows during 2007-08 is noteworthy as the foreign exchange reserves increased by US \$ 110.5 billion to US \$ 309.7 billion by end-March 2008.
- The Indian foreign exchange market witnessed generally orderly conditions during 2007-08 with the exchange rate exhibiting two-way movements. The rupee appreciated by 9.1 per cent against the US dollar and by 7.5 per cent against pound sterling but depreciated by 7.7 per cent against the Japanese yen and by 7.8 per cent against the euro during 2007-08.

Global Developments

- Global economic activity decelerated somewhat in relation to earlier expectations, mainly on account of the slowdown in the US economy.
- According to the World Economic Outlook (WEO) of the International Monetary Fund (IMF), the forecast for global real GDP growth, on a purchasing power parity basis, is expected to slow from 4.9 per cent in 2007 to 3.7 per cent in 2008.
- Continuing strong demand and dwindling stocks are reflected in a tight supply-demand food situation globally, leading to the emergence of food price inflation as a key risk to global stability.
- The Food and Agricultural Organisation's (FAO) global food price index, which rose by 40 per cent in 2007 to the highest level on record, has continued to increase in the first quarter of 2008 as well, as world food stocks have fallen to their lowest levels in 25 years.
- In the global foodgrains market, prices of major crops such as corn, soyabeans and wheat have increased by 58.2 per cent, 86.3 per cent and 56.5 per cent, respectively, by April 25, 2008 from a year ago in response to surging demand.
- According to the Energy Information Administration (EIA), tight fundamentals, reflected by low available crude oil surplus production capacity, combined with supply concerns in several oil exporting countries, have continued to put upward pressure on world crude oil prices.
- In the EMEs, the recent jump in headline inflation caused by higher energy and food prices are of concern since this requires a balanced response in controlling inflation while being alert to decelerating impulses from the slowdown in the developed countries and the possibilities of prolonged global financial market turmoil.

- Since the beginning of the turbulence in August 2007, central banks of advanced economies have responded with both conventional and unconventional measures to ease liquidity stress in financial markets and solvency issues among large financial institutions.
- Some central banks such as the US Federal Reserve, the Bank of England, the Bank of Canada have cut policy rates since the third quarter of 2007 when the financial market turmoil surfaced.
- Central banks of several countries, including the euro area, New Zealand, Japan, Korea, Malaysia, Thailand and Mexico have not changed their rates since the last quarter of 2007.
- Some central banks that have tightened their policy rates in recent months include the Reserve Bank of Australia, the People's Bank of China, the Banco Central de Chile and Banco Central do Brasil.
- Large capital flows to EMEs have elicited monetary tightening responses from central banks either through hike in their policy rates or reserve requirements or both. Meanwhile, in several EMEs, central bank bonds have continued to absorb liquidity from the banking system.
- Measures directly aimed at managing capital flows are also in evidence in many EMEs.

Overall Assessment

- While aggregate supply capacities expanded and alleviated domestic macro-imbalances in 2007-08 to some extent, available indicators suggest that economic activity in India currently continues to be mainly demand-driven.
- The pick-up in inflation during the fourth quarter of 2007-08 has mainly emanated from supply-side pressures such as the one-off increase in domestic petrol and diesel prices to partially offset the global crude oil price increase over the year; continuous hardening of prices of petroleum products that are not administered, rising prices of wheat and oilseeds and the adjustment in steel prices in March 2008 due to the surge in international prices.
- The upsurge in inflation in India has occurred at a time when global commodity prices have been volatile at historically elevated levels and central banks in mature and emerging economies alike have been articulating heightened inflation concerns.
- There are concerns that demand pressures, which have been reasonably contained so far, are being coupled with supply-side factors which, if not temporary, could impact domestic inflation significantly.
- The moderation in non-food credit growth has been marked in respect of interest-sensitive sectors which had been recording significantly elevated growth rates in preceding years.

- During the fourth quarter of 2007-08, financial markets were impacted by unusual swings and high volatility in foreign exchange flows as well as in cash balances of the Government with the Reserve Bank with consequent shifts in liquidity conditions.
- Growth forecasts for EMEs have been moderated in the face of the financial turbulence and the anticipated slowdown in the US economy. A key risk to the outlook for EMEs is rising food, energy and commodity prices that are already imparting inflationary pressures and raising concerns about impacting the momentum of growth in these economies.
- The recent monetary policy responses in the US have also heightened the uncertainties facing EMEs by widening interest rate differentials and increasing the costs of sterilisation, especially in a period when inflationary pressures warrant tightening.
- The outlook for the global financial system is overcast by the rising incidence of losses and write-offs in banking systems in the US and Europe amidst dislocations in the securitised credit market. There are also growing uncertainties surrounding the viability of financial guarantors and doubts about their business models as well as the approach of rating agencies with potential systemic implications.
- In the overall assessment, there have been significant shifts in both global and domestic developments in relation to initial assessments. The dangers of global recession have increased at the current juncture although consensus expectations do not rule out a soft landing. On the domestic front, the outlook remained positive up to January 2008. Since then, the prospects for growth in the year ahead have been trimmed as risks to inflation and inflation expectations from the upside pressures due to international food, crude and metal prices have become more potent and real than before.

Stance of Monetary Policy for 2008-09

- For policy purposes, real GDP growth in 2008-09 may be placed in the range of 8.0 to 8.5 per cent, assuming that (a) global financial and commodity markets and real economy will be broadly aligned with the central scenario as currently assessed and (b) domestically, normal monsoon conditions prevail.
- In view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming that supply management would be conducive, the policy endeavour would be to bring down inflation from the current high level of above 7.0 per cent to around 5.5 per cent in 2008-09 with a preference for bringing it as close to 5.0 per cent as soon as possible.

- In view of the monetary overhang, it is necessary to moderate monetary expansion and plan for a rate of money supply in the range of 16.5-17.0 per cent in 2008-09 in consonance with the outlook on growth and inflation so as to ensure macroeconomic and financial stability in the period ahead.
- Consistent with the projections of money supply, the growth in aggregate deposits in 2008-09 is placed at around 17.0 per cent or around Rs.5,50,000 crore.
- Based on an overall assessment of the sources of funding and the overall credit requirements of the various productive sectors of the economy, the growth of non-food credit including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and commercial paper (CP) is placed at around 20.0 per cent in 2008-09.
- Given the unprecedented complexities involved and the heightened uncertainties at this juncture, there are some key factors that govern the setting of the stance of monetary policy for 2008-09 viz., (i) the challenge of escalated and volatile food and energy prices; (ii) even as investment demand remains strong, supply elasticities are expected to improve further; (iii) recent initiatives in regard to supply-management by the Government of India and measures relating to the cash reserve ratio by the Reserve Bank of India; (iv) the importance of anchoring expectations relating to both global and domestic developments.
- In view of the above unprecedented uncertainties and dilemmas, it is important to take informed judgements with regard to the timing and magnitude of policy actions; and such judgements need to have the benefit of evaluation of incoming information on a continuous basis.
- To demonstrate on a continuing basis a determination to act decisively, effectively and swiftly to curb any signs of adverse developments in regard to inflation expectations.
- The Reserve Bank will continue with its policy of active demand management of liquidity through appropriate use of the CRR stipulations and open market operations (OMO) including the MSS and the LAF, using all the policy instruments at its disposal flexibly, as and when the situation warrants.
- Barring the emergence of any adverse and unexpected developments in various sectors of the economy, assuming that capital flows are effectively managed, and keeping in view the current assessment of the economy including the outlook for growth and inflation, the overall stance of monetary policy in 2008-09 will broadly be:
 - to ensure a monetary and interest rate environment that accords high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum.

- to respond swiftly on a continuing basis to the evolving constellation of adverse international developments and to the domestic situation impinging on inflation expectations, financial stability and growth momentum, with both conventional and unconventional measures, as appropriate.
- to emphasise credit quality as well as credit delivery, in particular, for employment-intensive sectors, while pursuing financial inclusion.

Monetary Measures

- Bank Rate kept unchanged at 6.0 per cent.
- Reverse Repo Rate and Repo Rate kept unchanged at 6.00 per cent and 7.75 per cent, respectively.
- The Reserve Bank retains the option to conduct overnight repo or longer term repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank will continue to use this flexibility including the right to accept or reject tender(s) under the LAF, wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.
- Cash reserve ratio (CRR) of scheduled banks increased to 8.25 per cent with effect from the fortnight beginning May 24, 2008.

Developmental and Regulatory Policies

Financial Markets

- Issuances of Floating Rate Bonds (FRBs) to be considered at an appropriate time taking into account market conditions.
- The modalities for implementing the recommendations of the Internal Working Group to review the auction procedure for the Government securities are being worked out.
- Wider dissemination of the investor friendly features of the regulations under the Government Securities Act, 2006 through media publicity and the website of the Reserve Bank for better customer service.
- A module of the NDS auction for non-competitive bidding scheme in the auctions of State Development Loans (SDLs) being developed by the CCIL is expected to become functional by September 2008.
- Action on the recommendations of the Working Group on Interest Rate Futures would be initiated on the basis of the feedback received.
- With the enactment of the Government Securities Act, 2006 effective from December 1, 2007, it is proposed to introduce STRIPS in Government securities by the end of 2008-09.

- A settlement mechanism in Government securities through settlement banks for participants who do not maintain current accounts but maintain SGL accounts with the Reserve Bank to be operationalised in May 2008.
- To allow access to NDS-OM extended to investors such as other non-deposit taking NBFCs, corporates and FIIs through the CSGL route.
- Following the enactment of the Payment and Settlement Systems Act, 2007, a clearing and settlement arrangement for OTC rupee derivatives to be put in place in consultation with the CCIL.
- Introduction of repo in corporate bonds to be considered once the prerequisites like efficient price discovery through greater public issuances and secondary market trading, and an efficient and safe settlement system, based on Delivery versus Payments (DvP) III and Straight Through Processing (STP), are met.
- To permit domestic crude oil refining companies to hedge their commodity price risk exposures on the basis of underlying contracts which are linked to international prices on overseas exchanges/markets on the basis of their past performance up to 50 per cent of the volume of actual imports during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.
- Currency futures to be introduced in the eligible exchanges in consultation with the SEBI; the broad framework to be finalised by the end of May 2008; RBI-SEBI Standing Technical Committee has been set up to advise on operational aspects.
- Indian companies allowed to invest overseas in energy and natural resources sectors such as oil, gas, coal and mineral ores in excess of the current limits with prior approval of the Reserve Bank.
- Indian parties may approach the Reserve Bank for capitalisation of export proceeds for exports outstanding beyond the prescribed period of realisation.
- To permit authorised dealer (AD) banks to write off, in addition to claims settled by the Export Credit Guarantee Corporation of India (ECGC), the outstanding export bills settled by other insurance companies which are regulated by the Insurance Regulatory Development Authority (IRDA).
- To enhance the present period for realisation and repatriation to India of the full export value of goods or software exported from six months to twelve months from the date of export, subject to review after one year.

Credit Delivery

- With effect from April 2009, the shortfall in lending to weaker sections by the domestic SCBs would be taken into account for the purpose of allocating amounts for contribution to RIDF or funds with other financial institutions as specified by the Reserve Bank.
- RRBs to be allowed to sell loan assets held by them under priority sector categories in excess of the prescribed priority sector lending target of 60 per cent, to enable greater flow of credit to this sector.
- Pending finalisation of action on the recommendations of the Radhakrishna Committee, it is proposed to ask each domestic commercial bank, including RRBs, to select one district for introduction, on a pilot basis, of a simplified cyclical credit product for farmers to enable them to continuously utilise a core component of 20 per cent of the credit limit to ensure minimum year-round liquidity as long as the interest is serviced.
- A simplified procedure for crop loans to landless labourers, share croppers, tenant farmers and oral lessees to be introduced whereby banks can accept an affidavit giving details of land tilled/crops grown by such persons for loans up to Rs.50,000 without any need for independent certification. Banks could also encourage the Joint Liability Group (JLG)/SHG mode of lending for such persons.
- In collaboration with the Indian Banks' Association (IBA), the Banking Codes and Standards Board of India (BSCBI) is evolving a banking code for small and micro enterprises.
- The report of the Working Group to examine the feasibility of reviving sick SMEs and to suggest remedial measures for potentially viable sick units placed on the Reserve Bank's website for wider dissemination/response.
- A Working Group constituted to prepare RRBs to adopt appropriate technology and migrate to core banking solution to submit its report by June 30, 2008.
- For 100 per cent financial inclusion, 277 districts identified and target achieved in 134 districts in 18 States and five Union Territories.
- Banks to be permitted to classify 100 per cent of the credit outstanding under General Credit Card (GCC) from 50 per cent earlier, and overdrafts up to Rs.25,000 against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under the priority sector.
- A concept paper on Financial Literacy and Counselling Centres has been prepared and placed on the Reserve Bank's website on April 3, 2008 for public feedback.

- A High Level Committee to review the Lead Bank Scheme expected to submit its report by July 2008.
- In order to promote an incentive system for greater flow and efficient allocation of credit, an Internal Working Group to be set up to look at issues relating to credit delivery, credit pricing and credit culture in a holistic manner.
- With a view to bringing about greater transparency, the Reserve Bank is in the process of collecting details of various charges levied by banks for public dissemination.
- In order to ensure that all bank branches provide better customer services to members of public at bank counters for exchange of notes, it is proposed to introduce a scheme of incentives and penalties for bank branches (including currency chests), based on their performance in rendering such services.

Prudential Measures

- In case of infrastructure projects to be financed by banks, the date of completion of the project should be clearly spelt out at the time of financial closure of the project and if the date of commencement of commercial production extends beyond a period of two years (as against the current norm of one year) after the date of completion of the project as originally envisaged, the account should be treated as sub-standard. The revised instructions are effective from March 31, 2008.
- In view of the recent developments in the global financial markets and for ensuring financial stability, it is proposed to review current stipulations regarding conversion factors, risk weights and provisioning requirements for specific off-balance sheet exposures of banks and prescribe prudential requirements and place guidelines on the Reserve Bank's website by May 15, 2008.
- Banks are required to review their advances to traders in agricultural commodities to ensure that bank finance is not used for hoarding and forward the first such review to the Reserve Bank by May 15, 2008 for carrying out supervisory review of banks' exposure to the commodity sector.
- The limit of bank loans for housing enhanced from Rs.20 lakh to Rs.30 lakh for applicability of reduced risk weights at 50 per cent.
- The Reserve Bank would complete the processing of applications for setting up Credit Information Companies by June 30, 2008.

- The Reserve Bank has constituted an Internal Technical Group to propose criteria for the applicability of Basel norms to State Cooperative Banks/District Central Cooperative Banks/Regional Rural Banks that is expected to submit its report by June 30, 2008.
- An Internal Working Group constituted by the Reserve Bank is currently studying the cross-country practices, including the legal issues to be laid down towards the road-map for adoption of a suitable framework for cross-border supervision and supervisory cooperation with overseas regulators, consistent with the framework envisaged in the Basel Committee on Banking Supervision.
- As proposed in the Mid-Term Review of October 2007, realignment of various internal supervisory processes for implementing an enhanced consolidated supervision of financial conglomerates would be completed by August 31, 2008.
- The Reserve Bank to constitute a Working Group to study and recommend a suitable supervisory framework for activities of SPVs/Trusts set up by banks.
- An inter-departmental group set up to study impact assessment, periodic reviews of horizontal risks across the system, inclusion of supervisory review process prescribed under Pillar 2 of Basel II framework in the Risk-based supervision (RBS) assessment besides simplifying the existing system of risk profiling for an appropriate RBS framework.
- The Reserve Bank has constituted an inter-departmental Group to review the existing regulatory and supervisory framework for overseas operations of Indian banks, the introduction of new products and processes, increasing off-balance sheet exposures including derivative products, and also to recommend appropriate changes, including off-site reporting systems.
- On the Financial Stability Forum's (FSF) Report in April 2008 regarding strengthening of prudential oversight of capital, liquidity and risk management, enhancing transparency and valuation, changing the role and uses of credit ratings, strengthening the authorities' responsiveness to risk and implementing robust arrangements for dealing with stress in the financial system, the Reserve Bank had put in place regulatory guidelines covering many aspects and action being initiated on others.
- The Reserve Bank has undertaken a detailed process of identifying the eligible credit rating agencies whose ratings may be used by banks for assigning risk weights for credit risk consistently for each type of claim, for both risk weighting and risk management purposes.

- A Working Group to lay down a road-map for adoption of a suitable framework for cross-border supervision and supervisory cooperation with overseas regulators, consistent with the framework envisaged in the Basel Committee on Banking Supervision (BCBS) has been constituted in March 2008.

Institutional Developments

- Following the enactment of the Payment and Settlement Systems Act, 2007, the Reserve Bank has placed the draft regulations under the Payment and Settlement Systems Act, 2007 on its website inviting public comments latest by May 15, 2008 to finalise regulations in consultation with the Government of India.
- Banks are urged to ensure that security of banking transactions is adequately addressed while using IT-based products such as smart cards, hand held devices and secured message transfers.
- The Reserve Bank has extended the waiver of processing charges for ECS / EFT / NEFT up to March 31, 2009.
- The Reserve Bank is formulating draft guidelines for mobile payment systems in India to be placed on its website by June 15, 2008.
- Effective April 1, 2008 all payment transactions of Rs. one crore and above in the money, Government securities and foreign exchange markets and the regulated entities (banks, PDs and NBFCs) have been made mandatory to be routed through the electronic payment mechanism.
- A Working Group to be constituted comprising representatives of the Reserve Bank, Central/State Governments and the UCB sector to suggest measures, including the appropriate regulatory and supervisory framework, to facilitate emergence of umbrella organisation(s) for the UCB sector in the respective States.
- To dispense with the extant eligibility norms for opening on-site ATMs for well-managed and financially sound UCBs in the States that have signed MoUs with the Reserve Bank and registered under the Multi-State Cooperative Societies Act, 2002.
- With a view to liberalising and rationalising the branch licensing norms for UCBs, approvals for branch expansion, including off-site ATMs to be considered, based on annual business plans, subject to maintenance of minimum CRAR of 10 per cent on a continuing basis and other regulatory comfort.
- To dispense with the minimum net worth criteria for undertaking insurance business provided other criteria as prescribed from time to time are met.

- To increase the extant limit on individual housing loans from Rs.25 lakh to a maximum of Rs.50 lakh in respect of Tier-II UCBs, subject to certain conditions.
- In the light of international developments and increasing bank exposure to these systemically important NBFCs, to review the regulations in respect of capital adequacy, liquidity and disclosure norms and issue revised instructions by May 31, 2008.
- As part of the progress made by the Committee on Financial Sector Assessment (CFSA), the four Advisory Panels constituted by the Committee have prepared their draft reports. The reports of the CFSA as also those of Advisory Panels are expected to be finalised by end-June 2008 and will be placed thereafter on the Reserve Bank's website.

Alpana Killawala
Chief General Manager

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