# *Press Release**

**February 2012**

## RBI to issue Non-Sequential Numbered Notes in Denomination of ₹1000

**February 1, 2012**

In June 2011, RBI had issued ₹500 denomination notes in non-sequential numbering. It has now been decided to issue banknotes of ₹1,000 denomination also on similar lines. Packets of Banknotes in non-sequential number will, as usual, have 100 notes. The bands of the packets containing the banknotes in non-sequential number will clearly be superscribed with the legend, "The packet contains 100 notes not numbered sequentially."

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## RBI's Second International Research Conference - 2012 Central Banks deliberate on New Trilemma of Monetary Policy, Sovereign Debt and Financial Stability

**February 2, 2012**

Central bankers across the globe got together in Mumbai and deliberated on the new trilemma of Monetary Policy, Sovereign Debt and Financial Stability. Most of them were of the view that the new trilemma is a reality and fiscal discipline is critically important for financial stability and price stability.

The Reserve Bank of India organised the Second International Research Conference (SIRC) on February 1-2, 2012 in Mumbai. The theme of the conference was "Monetary Policy, Sovereign Debt and Financial Stability: The New Trilemma" and encapsulated the complex challenges for central banks in the post crisis period. The first international research conference was held in February 2010, also in Mumbai.

* Important Press Releases during February 2012.

Central banks face the challenge of simultaneously ensuring price stability, financial stability and sovereign debt sustainability, which constitute three nodes of the new trilemma. The conference deliberated on the subject in three technical sessions, namely, (1) Conducting monetary policy post-crisis: Challenges to transmission mechanism and operating framework; (2) Impact of crisis on sovereign debt: Implications for macro-economy and inter-linkages with other policies; and (3) Financial stability: Evolving issues and challenges in the context of post-crisis macroeconomic and financial developments.

This was followed by two panel discussions comprising Governors of central banks. The discussions revolved around: (1) Monetary policy, sovereign debt, and financial stability – the new trilemma; and (2) Role of central banks of emerging market economies in the context of new trilemma. The summing up of the conference by Shri Deepak Mohanty, Executive Director provided the essence of the proceedings of the conference. The conference concluded with the vote of thanks by Shri B. M. Misra, Officer-in-Charge, Department of Economic and Policy Research.

Apart from Dr. D Subbarao, Governor of the Reserve Bank of India, several eminent central bankers, academicians, policy makers, financial regulators and supervisors participated in the conference to share their experience and thoughts. Some of the eminent participant included Governors/Head of central banks/ monetary authorities of Brazil (Mr. Alexandre Tombini), Bangladesh (Mr. Atiur Rahman), Iceland (Mr. Mar Gudmundsson), Maldives (Mr. Fazeel Najeeb), Nepal (Mr. Yuba Raj Khatiwada), Pakistan (Mr. Yaseen Anwar), and Singapore (Mr. Ravi Menon). Other participants included Mr. Naoyuki Shinohara, Deputy Managing Director of IMF, Prof. Benjamin Friedman, Harvard University, Prof. Eswar Prasad, Cornell University, Prof. Yung Chul Park, Korea University, Dr. William White from Organisation for Economic Cooperation and Development, Dr. Stephen Cecchetti from Bank for International Settlements, apart from heads of major commercial banks, financial and research institutions from India.

Other major takeaways from the conference were:

1. The new trilemma is a reality, and fiscal discipline is critically important for financial stability and price stability.

2. Interaction between sovereign debt and monetary policy is an important determinant of market confidence. A comprehensive fiscal exit strategy should explicitly recognise the objective of a sustainable public debt ratio and policies that should underpin a fiscal adjustment path.

3. Right balance between growth in the financial sector and real sector is important to prevent imbalances. Warning signals always flash before the crisis. Often imbalances are ignored, even if identified earlier. Leaning against imbalances could be less costly than cleaning up later.

4. Macro prudential measures are useful, but their effectiveness in preventing crisis is yet to be tested. These tools need to be fine-tuned.

5. The fundamental responsibility of central banks for price stability should not be compromised and that central banks should have a lead, if not an exclusive responsibility, for financial stability.

6. In the matter of ensuring financial stability, the government must normally leave the responsibility to the regulators and assume an activist role only in times of crisis. It is possible that the short-term policies aimed at price stability, financial stability and sovereign debt sustainability could, at times, run counter to policies required for promoting growth. But, growth achieved at the cost of these three objectives cannot be sustained.

7. Policy rate increases in India have a negative effect on output growth with a lag of two quarters and a moderating impact on inflation with a lag of three quarters and the overall impact on inflation persists through 8-10 quarters.

8. Monetary policy framework should not be locked into a single target. More flexibility in defining objectives and instruments is necessary. Boundary conditions for policy environment keep changing, but transmission within the boundary conditions is what a central bank could aim at.

9. Debt beyond a threshold level can adversely affect growth. Hence, debt reductions should be aimed at by improving primary balance and raising productivity growth.

10. More than quantum of debt, the purpose of debt, and the quality of assets created against the debt are important. It was also noted that when private credit to GDP ratio exceeds a threshold of 100 per cent, financial sector could be a drag on growth by reducing productivity growth.

11. The global economy changed with a series of shocks over the past 5 to 6 years questioning the self-sustaining nature of financial markets. This underscores the increased role of public policy in the financial sector and greater global co-ordination.

## Manappuram Finance Limited, Thrissur cannot accept/renew Public Deposits : RBI

**February 6, 2012**

The Reserve Bank of India today advised that Manappuram Finance Limited, Thrissur, Kerala (earlier known as Manappuram General Finance and Leasing Ltd.), is not permitted under the Reserve Bank of India Act, 1934, to accept/renew deposits from the public.

The Reserve Bank has stated that acceptance of deposits either by Manappuram Finance Limited or by

Manappuram Agro Farms (MAGRO) is punishable with imprisonment and has cautioned members of public that those who deposit money with Manappuram Finance Limited or MAGRO do so at their own risk.

### *Background*

Manappuram Finance Limited, Thrissur, Kerala (earlier known as Manappuram General Finance and Leasing Ltd.), was a company registered with the Reserve Bank of India as a deposit taking Non-Banking Financial Company. However, it became a non-deposit taking non-banking financial company with effect from March 22, 2011. Acceptance of deposits from the public, including renewal of matured deposits by that company, thus, amounts to contravention of the terms and conditions of the certificate of registration currently held by it and the directions issued to the Reserve Bank and thus punishable under the Reserve Bank of India, 1934 (RBI Act).

It has come to the notice of the Reserve Bank that Manappuram Finance Limited has been accepting deposits from the public in its branches and offices has been issuing deposit receipts in the name of Manappuram Agro Farms (MAGRO), a sole proprietary concern of Shri V.P Nandakumar who is the Executive Chairman of the company. It is further observed that in some cases instead of repaying the matured deposits, fixed deposit receipts are being issued in the name of MAGRO. In terms of Section 45-S of the RBI Act, acceptance of deposits from the public by MAGRO, which is an unincorporated body, is also prohibited.

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## RBI raises Bank Rate as a Technical Adjustment

**February 13, 2012**

The Reserve Bank of India has decided to change the Bank Rate with immediate effect by realigning it with the Marginal Standing Facility (MSF) rate, which in turn is linked to the policy repo rate under the Liquidity Adjustment Facility (LAF). Accordingly, the Bank Rate shall be 9.5 per cent with effect from the close of business today. This should be viewed and understood as one-time technical adjustment to align the Bank Rate with the MSF rate rather than a change in the monetary policy stance. Henceforth, whenever there is an adjustment of the MSF rate, the Reserve Bank will consider and align the Bank Rate with the revised MSF rate. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised.

### *Background*

Section 49 of the Reserve Bank of India Act, 1934 requires the Reserve Bank to make public (from time to time) the standard rate at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under that Act. Since discounting/rediscounting by the Reserve Bank has remained in disuse, the Bank Rate has not been active.

Being the discount rate, the Bank Rate should technically be higher than the policy repo rate. The Bank Rate has, however, been kept unchanged at 6 per cent since April 2003. This was mainly for the reason that monetary policy signalling was done through modulations in the reverse repo rate and the repo rate under the Liquidity Adjustment Facility (LAF) (till May 3, 2011) and the policy repo rate under the revised operating procedure of monetary policy (from May 3, 2011 onwards). Moreover, under the revised operating procedure, marginal standing facility (MSF), instituted at 100 basis points above the policy repo rate, has been in operation, which more or less served the purpose of the Bank Rate.

While the policy repo rate and the MSF rate have become operational, the Bank Rate continues to remain at 6 per cent. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is also used by several other organisations as a reference rate for indexation purposes.

The Reserve Bank consulted various organisations/ stakeholders that rely on Bank Rate as a reference rate. Based on the feedback received, it is determined that the Bank Rate should normally stay aligned to the MSF rate. Accordingly, it has been decided that with effect from the close of business today (February 13, 2012), the Bank Rate will stand increased by 350 basis points, *i.e.*, from 6.00 per cent per annum to 9.50 per cent per annum. As noted above, this should be viewed and understood as one-time technical adjustment to align the Bank Rate with the MSF rate rather than a change in the monetary policy stance.

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## RBI releases Draft Guidelines for White Label Automated Teller Machines (WLAs)

**February 14, 2012**

The Reserve Bank of India today released on its website, the "Draft Circular for Deployment of White Label Automated Teller Machines (WLAs)". The Reserve Bank has sought views/comments on the draft circular from banks, authorised ATM network operators, non-bank entities and members of public.

The key features of the draft circular are:

1. Non-bank entities proposing to set up WLAs would have to make an application to the Reserve Bank for seeking authorisation under the Payment and Settlement Systems (PSS) Act, 2007. Such entities should have a minimum net worth of ₹100 crore at the time of making the application and on a continuing basis after issue of the requisite authorisation. Other guidelines for applying to the Reserve Bank for authorisation under the PSS Act are available at http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86707.pdf.

2. Roles and responsibilities of the stakeholders as indicated at Annex 'B' (WLA Operator, Sponsor Bank, ATM Network Operators) are identified in the draft circular keeping in view various aspects, that is, cash management, ATM network membership and customer grievance redressal.

3. The general criteria for the non-bank entities that would be authorised under the PSS Act to own and operate WLAs are indicated at Annex- A

Views/Comments on the draft circular may be sent by March 06, 2012 to the Chief General Manager, Reserve Bank of India, Department of Payment & Settlement Systems, Central Office, 14h floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai -400001 or can be emailed.

Final circular will be issued soon thereafter.

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## Minutes of the January 18, 2012 Meeting of the Technical Advisory Committee on Monetary Policy

**February 17, 2012**

The twenty-seventh meeting of the Committee was held on January 18, 2012 in the run up to the Third Quarter Review of the Monetary Policy 2011-12 on January 24, 2012. The main points of discussion of this meeting are set out below.

1. The TAC members reviewed the recent global and domestic macroeconomic developments. Most members felt that the macroeconomic situation in the euro area continued to be extremely worrisome. The probability of an event shock was still very high. They also felt that the growth in euro area could contract. However, some other members felt that the global situation had improved and was better than in end-2011. Some members also noted the improving recovery in the US.

2. Discussing the domestic macroeconomic situation, members felt that the economy was clearly slowing down. They, in particular, expressed worry at the sharp slowdown of investment

activity. While high interest rates had impacted investment, the overall investment sentiment was also subdued because of the structural and confidence issues that had not been addressed. Some members felt that the slowdown in investment would affect the next year's growth as well. Besides, it would also have implications for inflation, going forward. Some members, therefore, suggested that the policy focus should change from managing inflation to managing slowdown in investment. Most members felt that the current account deficit was high and widening due to slowdown in exports, but inelastic imports. Given the fragility of the global situation and slowdown in capital flows, there was a need to remain extremely watchful insofar as the external sector was concerned. Almost all the members expressed satisfaction the way the Reserve Bank handled the rupee exchange rate.

3. Members noted the moderation in domestic inflation, a*lbeit* driven largely by food prices. Some members felt that food price inflation would remain moderate which would soften aggregate inflation. They also noted that global commodity prices were softening. All these should help moderate inflation expectations. Some other members, however, continued to be concerned with high inflation and felt that it was persistent. According to them, although inflation would moderate to around 7 per cent by March 2012, it was nowhere near the 4.5 - 5.0 per cent mark. Most members felt that inflation would continue at the current levels in the near future because of the structural issues such as fiscal slippage, suppressed elements of inflation, increase in input prices due to the weakening rupee, high inflation expectations and the wage-price spiral. Some members felt that level of inflation expectations was high and the Reserve Bank should continue to keep monetary policy tight (at the present level). It was necessary to bring down inflation significantly from the present level even if it meant lower growth for the next few years. It would ensure that high growth was achieved in subsequent years.

4. All the members of Committee expressed serious concerns over the evolving fiscal situation. Fiscal deficit target in 2011-12 was likely to slip significantly. Some members felt that the fiscal pressure would continue beyond 2011-12 as the monetary impact of entitlements such as Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), oil, fertiliser and food subsidies would be significant. Some members felt that unless there was a clear signal of credible fiscal consolidation, the Reserve Bank should hold back the policy rate reversal.

5. Members had divergent views on monetary policy and liquidity measures. Three external members suggested that the policy repo rate be reduced by 25 basis points, while one member suggested that it be reduced by 50 basis points. Of these, one member also suggested reduction in the cash reserve ratio (CRR) by 50 basis points and another by 25 basis points. Two other members did not suggest any change in the CRR. The other three members did not recommend any change in the repo rate. Of these, one member suggested reduction in the CRR by 25 basis points, while two others suggested that the CRR be changed only, if necessary, and that too outside the regular policy announcements.

6. The meeting was chaired by Dr. D. Subbarao, Governor. Other members present were: Dr. Subir Gokarn, Vice-Chairman, Dr. K.C. Chakrabarty, Shri Anand Sinha, Shri H.R. Khan; and external members Shri Y.H. Malegam, Prof. Indira Rajaraman, Dr. Shankar Acharya, Dr. Rakesh Mohan, Prof. Sudipto Mundle, Prof. Errol D'Souza and Prof. Ashima Goyal. Shri Deepak Mohanty, Dr. Janak Raj, Shri B.M. Misra, Shri Pardeep Maria and Shri Amitava Sardar were in attendance.

7. Since February 2011, the Reserve Bank has been placing the main points of discussions of the Technical Advisory Committee (TAC) on Monetary Policy meetings in public domain with a lag of roughly four weeks after their meetings.

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## Issue of ₹10 Banknotes with inset letter 'P' and with signature of Dr. D. Subbarao, Governor

**February 17, 2012**

The Reserve Bank of India will shortly issue ₹10 denomination Banknotes with inset letter 'P', in the Mahatma Gandhi Series bearing the signature of Dr. D. Subbarao, Governor, Reserve Bank of India, and the year of printing on the reverse of the Banknote.

The design of these notes to be issued now is similar in all respects to the Banknotes in Mahatma Gandhi Series 2005 issued earlier.

All the Banknotes in the denomination of ₹10 issued by the Bank in the past will continue to be legal tender.

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## Report of the Nair Committee on Priority Sector Lending

**February 21, 2012**

The Reserve Bank of India released on its website today, the report of the Committee (Chairman: Shri M V Nair, Chairman, Union Bank of India) constituted to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending and related issues.

The Reserve Bank has sought views/comments on the report of the Committee from banks, non-bank financial institutions, other institutions and members of public. Suggestions and comments on the Report may be sent by March 31, 2012 to the Chief General Manager-in-Charge, Reserve Bank of India, Rural Planning & Credit Department, Central Office, 10th floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 and by email.

Final circular on priority sector lending will be issued after receiving feedback, comments and suggestions on the Report.

### *Constitution of the Committee*

The Reserve Bank had constituted the Committee under the chairmanship of Shri. M. V. Nair on August 25, 2011 pursuant to the announcement made in the Monetary Policy Statement 2011-12. The Committee was to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending and related issues. The Committee had 10 Members from diverse fields and Dr. Deepali Pant Joshi, CGM-in-Charge, Rural Planning and Credit Department, Reserve Bank of India was its Member Secretary. The Committee was given a broad-based terms of reference.

### *Major Recommendations of the Committee are:*

By adopting a wide and exhaustive consultation process, the Committee identified key issues facing diverse segments and sections of society; examined them thoroughly and made recommendations that would support achieving the objectives of directed lending.

1. The target of domestic scheduled commercial banks for lending to priority sector may be retained at 40 per cent of adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher.

2. The sector 'agriculture and allied activities' may be a composite sector within priority sector, by doing away with distinction between direct and indirect agriculture. The targets for agriculture and allied activities may be 18 per cent of ANBC or CEOBE, whichever is higher.

3. A sub target for small and marginal farmers within agriculture and allied activities is recommended, equivalent to 9 per cent of ANBC or CEOBE, whichever is higher to be achieved in stages by 2015-16.

4. The MSE sector may continue to be under priority sector. Within MSE sector, a sub target for micro enterprises is recommended equivalent to 7 per cent of ANBC or CEOBE, whichever is higher, to be achieved in stages by 2013-14.

5. Banks may be encouraged to ensure that the number of outstanding beneficiary accounts under 'small and marginal farmers' and micro enterprises' each register a minimum annual growth rate of 15 per cent.

6. The loans to housing and education may continue to be under priority sector. Loans for construction/ purchase of one dwelling unit per individual up to ₹25 lakh; loans up to ₹2 lakh in rural and semi urban areas and up to ₹5 lakh in other centres for repair of damaged dwelling units may be granted under priority sector.

7. In order to encourage construction of dwelling units for Economically Weaker Sections (EWS) and Low Income Groups (LIG), housing loans granted to these individuals may be included in Weaker Sections Category.

8. All loans to women under priority sector may also be counted under loans to weaker sections.

9. Limit under priority sector for loans for studies in India may be increased to ₹15 lakh and ₹25 lakh in case of studies abroad, from existing limit of Rs 10 lakh and Rs 20 lakh, respectively.

10. The priority sector target for foreign banks may be increased to 40 per cent of ANBC or CEOBE, whichever is higher with sub-targets of 15 per cent for exports and 15 per cent for MSE sector, within which 7 per cent may be earmarked for micro enterprises.

11. The committee recommends allowing non-tradable priority sector lending certificates (PSLCs) on pilot basis with domestic scheduled commercial banks, foreign banks and regional rural banks as market players.

12. Bank loans to non-bank financial intermediaries for on-lending to specified segments may be allowed to be reckoned for classification under priority sector, up to a maximum of 5 per cent of ANBC or CEOBE, whichever is higher, subject to certain due diligence and documentation standards.

13. The present system of report-based reporting has certain limitations and it may be improved through data-based reporting. There is a need to address the issues in data reporting like pre-defined parameters, reference date, periodicity, unit of reporting, *etc.*

The recommendations of the Committee are expected to have significant impact in addressing issue of directing lending to those who have lack of access to credit and to those sectors which generate large employment. It is hoped that these recommendations would promote country's developmental and inclusive goals.

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## Issue of ₹1000 Banknotes with inset letter 'R', having Rupee symbol (₹)

**February 21, 2012**

The Reserve Bank of India will shortly issue ₹1000 denomination Banknotes incorporating "₹" symbol, with inset letter 'R' , in the Mahatma Gandhi-2005 Series bearing the signature of Dr. D. Subbarao, Governor, Reserve Bank of India, and the year of printing on the reverse of the Banknote.

The design of these notes to be issued now is similar in all respects to the Banknotes of ₹1000 in Mahatma Gandhi Series -2005 issued earlier except for ₹symbol.

All the Banknotes in the denomination of ₹1000 issued by the Bank in the past will continue to be legal tender.

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## RBI and 926 branches of Banks to accept Advance Income Tax

**February 21, 2012**

As many as 926 computerised branches of public and private sector banks will receive advance income tax in Mumbai and Navi Mumbai. These arrangements have been made for the convenience of the income tax assesses. Of the 926 bank branches 862 branches are public sector bank branches, 35 HDFC bank branches, 10 ICICI bank branches and 19 AXIS bank branches. The Reserve Bank of India has advised income tax assesses to take advantage of these standing arrangements made for their convenience.

Long queues and inconveniences can be avoided at the Reserve Bank of India counters if the assesses in Mumbai and Navi Mumbai utilise the services being made available at various designated branches of banks and deposit their income tax dues well in advance of the last date.

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## RBI Releases Draft Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards

**February 21, 2012**

The Reserve Bank of India today released on its website, Draft Guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards for comments and feedback.

To address the deficiencies witnessed in liquidity risk management in the recent crisis and to strengthen liquidity risk management in banks, the Basel Committee on Banking Supervision (BCBS) published "Principles for Sound Liquidity Risk Management and Supervision" inSeptember 2008. This was followed by the publication of "Basel III: International framework for liquidity risk measurement, standards and monitoring" in December 2010 *i.e.*, the Basel III rules text on liquidity prescribing two minimum global regulatory standards *viz.* liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) for liquidity risk and a set of five monitoring tools.

The Reserve Bank, being a member of the BCBS, is fully committed to the objective of the Basel III reform package and, therefore, intends to implement these proposals for banks operating in India. Accordingly, draft guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards have beenprepared.

The draft guidelines have been presented in two sections *viz.*, Section I and II. Section I consolidates the various instructions/guidance on liquidity risk management that the Reserve Bank of India has issued from time to time in the past, and where appropriate, harmonizes and enhances these instructions/guidance in line with the BCBS's Principles for Sound Liquidity Risk Management and Supervision. Section II covers the Basel III guidelines on liquidity risk as will be applicable to the Indian banks. Two minimum global regulatory standards *viz.* LCR and NSFR as set out in the Basel III rules text issued by the BCBS in December 2010 have been prescribed under the guidelines which will become binding from 1 January 2015 and 1 January 2018, respectively. Till then, these guidelines have been issued for compliance on best effort basis. Banks are expected to submit the liquidity returns under the Basel III framework to the Reserve Bank from the month / quarter ending June 2012.

Comments/feedback on the draft guidelines may please be forwarded to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office Building, 12th Floor, S.B. Singh Marg, Mumbai-400001, latest by March 21, 2012 by email.

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## Government of India nominates Shri D. K. Mittal on RBI's Central Board

**February 23, 2012**

In exercise of the powers conferred by clause (d) of sub-section (1) of Section 8 of the Reserve Bank of India Act, 1934, the Central Government has nominated Shri D. K. Mittal, Secretary, Department of Financial Services, Ministry of Finance, as a director on the Central Board of Directors of Reserve Bank of India with effect from February 7, 2012 and until further orders.

It may be recalled that clause (d) of sub-section (1) of Section 8 of the Reserve Bank of India Act, 1934 was amended recently to allow the Central Government to nominate two Government Officials to the Central Board of Reserve Bank instead of one.