A Monthly Newsletter of Indian Institute of Banking & Finance (Rs. 40/- per annum)

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Committed to professional excellence

IIBF VISION

Volume No. : 3 Issue No. : 01 August 2010

RBI Monetary Policy - July 2010

Monetary measures :

1. The Bank Rate retained at 6.0 %
2. Repo rate raised by 25 basis points (bps) from 5.5% to 5.75%
3. Reverse Repo rate raised by 50 bps from 4% to 4.5%
4. The cash reserve ratio (CRR) of scheduled banks retained at 6.0% of their net demand and time liabilities (NDTL).

Financial Market measures :

Money supply (M3) growth on a year-on-year basis moderated from 16.8% at end-March 2010 to 15.3% on July 2, 2010 reflecting a slowdown in the growth of bank deposits. Time deposits decelerated mainly because of withdrawal of deposits by public sector undertakings and mutual funds (MFs). To finance higher credit growth in the face of declining deposit growth, banks unwound their investments in MFs and accessed the repo window of the Reserve Bank of India (RBI).

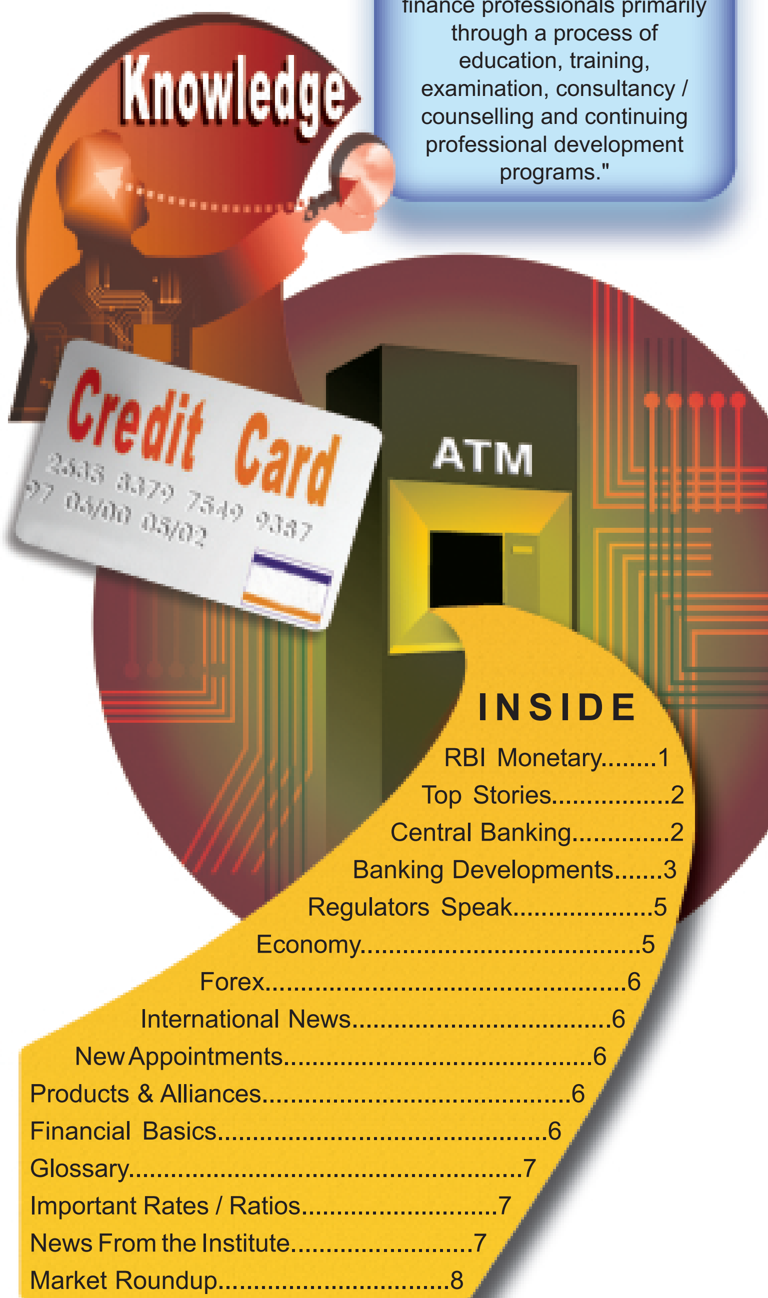
Regulatory measures :

1. A Working Group has been proposed to review RBI's current operating procedure of monetary policy, including the LAF.
2. More frequent policy review : The RBI will now undertake mid-quarter reviews roughly at the interval of about one and half months after each quarterly review. As per schedule, mid-quarter reviews will be in June, September, December and March.

Objectives :

1. Moderate inflation by reining in demand pressures and inflationary expectations.
2. Maintain financial conditions conducive to sustaining growth.
3. Generate liquidity conditions consistent with more effective transmission of policy actions.
4. Reduce the volatility of short-term rates in a narrower corridor.

The mission of the Institute is "to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs."



INSIDE

Top Stories

Rupee gets distinct symbol

The Indian rupee has been bestowed with a distinct, identifiable symbol reflecting the strength of the over-trillion-dollar economy. The Indian currency joins an exclusive club of international currencies - the US Dollar, the British Pound, the Japanese Yen and the Euro - that have their own symbols.

₹

The symbol embraces both the signifier and the signified. The R without the bar on left the Devanagari letter for the sound र with two horizontal dashes across atop is the signifier in the new Rupee symbol. It signifies ambition. Ambition is to project India as a global powerhouse, in the company of economies that have their own currency symbols. India's resilience as the second fastest-growing economy in a crisis-struck world gives this ambition both credence and salience.

SBI brings green banking to the counter

In line with its 'go green' movement, the State Bank of India (SBI) has introduced a 'green channel counter' at a Chennai branch where customers make paperless deposits, withdrawals and remittances; thus obliterating the need for pay-in-slips, cheques etc. SBI Chairman, Mr. O. P. Bhatt, observes that the “game changing” facility will make things easier for customers (especially senior citizens) as they would not need to fill in forms, often in triplicate. The entire transaction is card based, thus helping the man behind the counter too.

Open a SBI account with just Re.1

A new, first-time-ever initiative of the SBI now enables poor workers and small businessmen slogging in urban areas to open a bank account with just Re.1! SBI has introduced biometric smartcards to operate the new facility through which they can deposit and withdraw small amounts, earn interest and get access to all other services offered by the bank. Initially, 20 kiosks, called Customer Service Points (CSPs), have been opened in different pockets of Hyderabad, targeting the urban poor. This is part of the national rollout of CSPs by SBI in association with Geosansar, its business correspondent (BC Partner). The kiosks will function like a mini bank branch with a BC.

RRB wages on par with nationalized banks

The government has revised the pay scale and allowances of employees of Regional Rural Banks (RRBs) to bring it on par with the nationalized banks. The move will put an additional cost burden of Rs.791 crore on the exchequer in the form of arrears.

New banks may have to reach out to rural India

New Banks seeking a licence may be asked to form alliances with RRBs to help them begin operations on a wider footprint, and hasten financial inclusion in a nation where half the agrarian households have no access to credit. The RBI is soon scheduled to finalise draft guidelines for new bank licences and is likely to mandate that new banks open a certain minimum number of branches in unbanked areas.

Banks form consortium to collect fraud, security data

A consortium of commercial banks has joined hands to float a new company, Loss Data Consortium (Cordex), which will collect data related to frauds and security risk. The company will collect historical data from member banks on issues related to operational risk faced by banks and analyse the same. As many as 13 banks (including SBI, ICICI Bank, Punjab National Bank, Bank of Baroda etc.) will own equity in the new company, with each bank initially contributing Rs.1 crore. The formation of the new company an initiative of Indian Banks' Association (IBA) - to collect and analyze data is in line with practice followed in the overseas market.

Central Banking Developments

RBI policy reviews to be more frequent

RBI wants to make its regular monetary policy reviews a more frequent affair than the quarterly mode at present. RBI seems to be emulating the western model of 'once-a-month to six weekly huddling together' to review interest rates and other policy instruments. Apparently, the RBI has already conveyed its views on the topic, to the government.

RBI changes market timings

After market participants across the spectrum opined that the timing in the government securities (G-secs) market is unduly long, the market timing for the outright transactions in G-secs, repo in G-secs and CBLO markets that settle on T+1 basis shall be between 9 am and 5 pm from Monday to Friday.

RBI may increase the capital ratio for banks

The RBI is likely to prescribe a higher capital requirement for banks from financial year 2012-13. A committee of the Bank for International Settlements (BIS) has been working on revision of Basel-II norms in the light of the global financial crisis, points out Mr. Anand Sinha, an Executive Director of RBI, adding that "the financial crisis has altered the approach towards capital adequacy. It is better to have a bit of extra capital than less". The enhanced requirements will be rolled out in phases. RBI currently prescribes a minimum capital adequacy ratio (CAR) of 9% of risk-weighted assets; higher than the 8% prescribed internationally. Most banks in India have CAR of more than 12%, Europe has adopted core capital of 4 to 5% while the ratio in the US is 8%.

RBI extends second LAF; withdraws SLR facility

The RBI extended the second daily liquidity adjustment facility (LAF) for commercial banks by two weeks to July 30. RBI, however, didn't extend the facility under which banks could borrow against 0.5% of their holdings of statutory liquidity ratio (SLR) bonds. A bank using this facility could maintain its SLR at 24.5%, instead of the required 25%. Extension of LAF must have ideally helped banks manage their resources better. RBI had introduced the second LAF on May 26 to help banks adjust their daily liquidity positions and avoid any mismatch after large withdrawals for payment of advance tax and telecom licences. In its second LAF auction, RBI infused Rs.12,455 crore in the system (following Rs.28,520 crore in the first.)

RBI issues alert on fictitious schemes

In view of the large number of fictitious lottery offers and offers of cheap funds from abroad being received by Indian public, the RBI has cautioned Authorised Dealer category-I banks to be extra vigilant. Remittances in any form towards participation in lottery schemes are prohibited under the Foreign Exchange Management Act, 1999 (FEMA). Further, these restrictions are also applicable to remittances for participation in lottery like schemes existing under different names like money circulation scheme or remittances for the purpose of securing prize money / awards.

RBI okays take-out finance via ECBs to refinance infra Rupee loans

The RBI has further relaxed the norms governing external commercial borrowings (ECBs) for infrastructure companies by allowing them to avail of take-out financing through such forex loans. This relaxation was earlier applicable to companies involved in sea-port, airport, road and power sectors. The company developing the infrastructure project must have a tri-partite agreement with domestic banks and overseas lenders for take out of the loan, which must have a minimum tenure of seven years. Domestic banks involved in the transaction would be governed by norms related to take-out financing and would not be allowed to guarantee such financing.

Banking Developments

Infra-financing swells 41% in '09-10

Total lending to the infrastructure sector by all financial institutions has risen 40.8% to Rs.3,80,122 crore in 2009-10 from Rs.2,69,972 crore in March 2009. Out of this, lending by the PSBs rose 38% to Rs.3,37,018 crore from Rs.2,44,304 crore. India Infrastructure Finance Company (IIFC), which provides loans for infrastructure projects for a period exceeding 10 years, has disbursed Rs.11,837.27 crore as against a total sanctioned amount of Rs.24,376 crore for various core sector projects till March 2010. However, in an interesting trend, the exposure of small and medium PSBs to core sectors has been more vis-a-vis some of their larger counterparts.

PSBs face Base Rate heat

PSBs whose base rates are more than those of their private counterparts, have started feeling the heat. Bill discounting activity, in which a bank buys the bill before it is due and credits the value of the bill after a discount charge to the customer's account, is shifting to private banks; since the discount rate is lower than the base rate of most PSBs. Banks cannot lend below the base rate, except to a few categories specified by the regulator.

Bank credit, deposits surge in first quarter

Banks appear to have ended the first quarter of FY 2011 on a high note. Credit and deposits spurted by Rs.91,973 crore and Rs.1,15,162 crore respectively in the fortnight ended July 2, 2010. In the preceding fortnight, while bank credit increased by Rs.22,343 crore, deposits declined by Rs.23,761 crore, as per the scheduled commercial banks' (SCBs) statement of position compiled by the RBI.

Bank deposit growth slackens

Apart from the developments in the Euro zone, which continue to cast a shadow over the stock market, there could be trouble from the liquidity situation, due to bank deposit growth deceleration and lending pick-up. The aggregate deposit growth rate has slowed down from 20.4% in December 2008 to 18% in December 2009. During the same period, the growth rate of gross bank credit increased significantly from 15.9% to 18.3%. Mr. R. K. Bansal, Executive Director (Retail Banking), IDBI Bank, says "Banks will have to take a view on hiking their deposit rates in the near-term. With inflation on the higher side, depositor will not take a negative yield on deposits for long. This will impact credit growth in the future; and with the RBI hiking repo and reverse repo rates by 25 bps, liquidity is bound to become slightly tighter."

Banks can now access information on suspect activities

Banks can now access and share information on high-risk activities, thanks to 'CIBIL Detect' - a nationwide database of reported fraudulent and suspect activities. This database will serve as due diligence tool for banks before establishing business relationship with new customers, assures Mr. Arun Thukral, MD of CIBIL, the country's first credit information bureau.

Cabinet nod for merging State Bank of Indore with SBI

SBI has moved a step closer towards merging State Bank of Indore with itself, following the Union Cabinet's nod to the transaction. This will be the second associate bank (after State Bank of Saurashtra) to be merged with SBI over the last two years. The move would allow economies of scale in terms of footprint, manpower and other resources, as affirmed by the Information & Broadcasting Minister, Ms. Ambika Soni.

Banks' SLR portfolio down 34% on liquidity demands

The RBI in its Macroeconomic and Monetary Developments : First Quarter Review 2010-11, has stated that the excess SLR portfolio of SCBs has fallen by 34.20% to Rs.1,87,705 crore, as on 2nd July, 2010 from Rs.2,85,491 crore a year ago, as the banks availed liquidity support from it through special facilities. Additionally, the adjusted-for LAF collateral securities on an outstanding basis, given the repo mode of the LAF and the SCBs' maintenance of SLR, was 29.6% of NDTL, an excess of 4.6 percentage points over the prescribed SLR.

Narrowing of LAF rates corridor will trim volatility

RBI's move to hike repo rate by 25 bps (from 5.5% to 5.75%) and reverse repo rate by 50 bps (from 4 to 4.5%) will help reduce volatility in interest rates. As per banking experts, the liquidity situation is likely to fluctuate between surplus and deficit. Explaining the rationale behind the narrowing of the corridor of the LAF rates, Mr. Aditya Puri, MD, HDFC Bank, says that "there is a need for a wide corridor when there is uncertainty. But now that the economy has stabilized, credit growth has picked up and interest rates are moving up, the corridor can be narrowed."

Bank credit shrinks by Rs.38,913 crore

After rising on huge demand from telecom players, bank credit dropped by Rs.38,913 crore during the fortnight ended July 17. Deposits mobilized by banks dropped by Rs.40,867 crore during the same period. On a year-on-year basis, deposits grew by 14.55% to Rs.45,91,836 crore; demand deposits or CASA dropped by Rs.37,735 crore while time deposits dropped by Rs.3,132.

CRAMPED CREDIT

Fortnight-ended	Credit flow	Y-o-Y growth	Deposit mobilised	Y-oY growth
9 April '10	826	17.00	43,501	16.00
23 April '10	-26,483	17.13	-23,327.90	14.97
7 May '10	13,030	17.25	24,471	14.72
21 May '10	2,406	18.04	-4,997	14.16
4 June '10	57,895	19.12	-9,024	14.33
18 June '10	22,343	19.59	-23,761	13.92
2 July '10	91,972.53	21.70	1,15,162	14.92
17 July '10	-38,913	21.27	-40,867	14.55

Figures in Rs. crore; y-o-y growth (%) at the end of fortnight

The Debt Trap

India's external debt - as on, end of March 2010 - stood at $261.4 billion (18.9% of the GDP), recording an increase of $36.9 billion or 16.5% over the year end-March 2009. The sharp increase could be attributed to an increase in support from International Monetary Fund (IMF) and a jump in commercial borrowings as well as NRI deposits. There was an improvement in short-term trade credit as well. According to RBI, India continued to be the fifth most indebted country n the world in 2008. ECBs accounted for 27% of total foreign debt, followed by short-term debt (20%) and NRI deposits (18.4%). The increase in borrowings resulted in the country's debt service ratio rising to 5.5% during 2009-10 compared with 4.6% during 2008-09. Excluding the valuation effects due to depreciation of the US Dollar against other major international currencies and the Indian Rupee, the stock of external debt has increased by $30.4 billion from its level as on year end-March 2009.

End March

($ in millions)

External debt by Component	2008	2009	2010(P)
Multilateral	39,490	39,538	42,733
Bilateral	19,708	20,613	22,596
IMF	1,120	1,018	6,041
Trade Credit	10,328	14,490	16,878
ECBs	62,334	62,413	70,986
NRI Deposits	43,672	41,554	48,092
Rupee Debt	2,017	1,527	1,657
Long - term Debt (P) *1	1,78,669	1,81,153	2,08,983
Short - term Debt *2	45,738	43,362	52,471
Total (1+2)*	**2,24,407**	**2,24,515**	**2,61,454**

Source : Economic Times

Private Banks, Foreign banks and PSBs announce Base Rates

The private sector lender ICICI Bank chose to fix its base rate at 7.5% while peer HDFC Bank has decided its minimum lending rate at an attractive 7.25%. A number of private and foreign lenders, including Kotak Mahindra Bank, Yes Bank, Deustche bank, Standard Chartered Bank and HSBC declared their base rates. Private sector banks have more or less matched state-run banks in fixing their base rates. While public sector banks have fixed their base rates at around 8% - level, private sector lenders have been more aggressive.

Base Rate of various banks are as under :

No.	Private Sector Banks	Rates (%)
1.	ICICI Bank	7.50
2.	HDFC Bank	7.25
3.	Axis Bank	7.50
4.	Karur Vysya Bank	8.50
5.	Dhanlaxmi Bank	7.00
6.	Bank of Rajasthan	8.00
7.	Federal Bank	7.75
8.	Indusind Bank	7.00
9.	Yes Bank	7.00
10.	Kotak Mahindra	7.25
11.	Development Credit Bank	7.75

No.	Public Sector Banks	Rates (%)
1.	State Bank of India	7.50
2.	Punjab National Bank	8.00
3.	Bank of Baroda	8.00
4.	Bank of India	8.00
5.	Union Bank of India	8.00
6.	Central Bank of India	8.00
7.	Dena Bank	8.25
8.	IDBI Bank	8.00
9.	State Bank of Mysore	7.75
10.	Indian Overseas Bank	8.25
11.	Canara Bank	8.00
12.	Corporation Bank	7.75
13.	Indian Bank	8.00
14.	UCO Bank	8.00
15.	SBBJ	7.75
16.	Oriental Bank of Commerce	7.75
17.	Allahabad Bank	7.75
18.	Vijaya Bank	8.25

Regulators Speak...

RBI to fine SGL defaulters

The RBI will be enforcing a fine on subsidiary general ledger (SGL) account holders, if they fail to settle transactions in G-secs due to insufficient funds and securities. Such defaults will be termed as 'SGL bouncing'. Under the graded penalty structure, the defaulting member will pay up to Rs.5 lakh as fine per instance. This regime would be effective for the first nine instances in a financial year. On the tenth default, the entity will be debarred from using the SGL account for short sales in G-secs for the rest of the year. RBI will examine if the account holder has made any improvement in the internal control systems, before granting permission to resume short sales using the SGL account in the next financial year.

Base rate will bring in equity, transparency, says Dr. Chakrabarty

The base rate, below which a bank cannot lend to any customer, is a major step taken by the RBI towards infusing transparency and equity in the financial market, opines Dr. K. C. Chakrabarty, Deputy Governor, RBI. Some companies have expressed apprehension that the base rate could lead to an increase in borrowing costs. Notably, the increase would happen despite there being no change in the risk profile of the borrower. Dr. Chakrabarty remarks that, that is the purpose of this reform. “Earlier the “big” were being subsidized by the “small”. Large companies could borrow at rates of 5-6%, while SMEs could borrow only at 12-13%. We want this to stop”. Dr. Chakrabarty further observes that the RBI has been able to bring down the BPLR from around 11-12% to 7-8%, in a single sweep. He further emphasises that the base rate system (where the base rates are calculated on the basis of cost of funds) is more transparent and would lead to stability in the banking system.

No re-look at changes in ULIP norms : IRDA chief

The recent changes in norms of unit-linked insurance plans (ULIPs) are here to stay and there will be no re-look, as asserted by Mr. J. Hari Narayan, Chairman, Insurance Regulatory and Development Authority (IRDA).

Economy

Exports in June rise 30% to $17.75 billion

Merchandise exports rose 30.4% year-on-year to $17.75 billion in June, while imports grew by 23% to $28.3

billion, resulting in a trade deficit of $10.55 billion. In the quarter ended June, exports jumped by 32.25%, reaching $51 billion, compared to $35.4 billion in the same period last year. Imports rose by 34% to $83 billion, as against $50.9 billion in the same period of 2009-10. The trade deficit in the first quarter of this year widened to $32.2 billion due to a significant rise in domestic demand from $28.64 billion in April-June 2009-10.

Current account deficit in Jan- March Quarter widens to $13.2 billion

For FY10, the current account deficit rose to $38.4 billion from $28.7 billion a year ago, marking a new high during the post reforms period. The current account in the balance of payments (BoP) of a country records transactions against purchase of goods and services or income from a service while capital account inflows are investments or debt creating flows, which are more volatile in nature. Although the current account deficit is high compared to the average of the last decade or so, economists say there is no undue cause for worry.

Forex

Foreign Exchange Reserves

Item	As on July 30, 2010	As on July 30, 2010
	Rs. Crore	US$ Mn.
1	2	3
Total Reserves	13,20,311	284,183
(a) Foreign Currency Assets	12,01,227	258,551
(b) Gold	89,564	19,278
(c) SDRs	23,257	5,006
(d) Reserve Position in the IMF	6,263	1,348

International News

ECB keeps its key rate at 1%, BOE at 0.5%

The European Central Bank (ECB) has retained interest rates at a record low, as rising market borrowing costs and the sovereign debt crisis threaten to derail the region's economic recovery. Policy makers have kept the benchmark rate at 1%; separately, the Bank of England (BoE) has left its key rate at 0.5%.

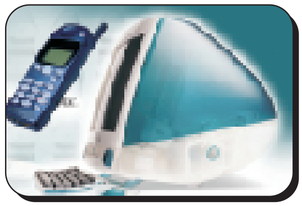
New Appointments

HDFC Bank gets new chairman

Mr. C. M. Vasudev has taken over as HDFC Bank's non-executive chairman from July 6, 2010.

Mr. R. M. Malla to head IDBI Bank

Mr. R. M. Malla has been appointed Chairman and Managing Director of IDBI Bank. He was earlier the Chairman of SIDBI. He takes over from Mr. Yogesh Agarwal whose term ended in June.



Products & Alliances

IL&FS ties up with five public sector banks

IL&FS and five large PSBs : Bank of Baroda (BoB), Bank of India (BoI), Punjab National Bank (PNB), Union Bank of India and Canara Bank - have decided to enter into an agreement for undertaking syndication business for large infrastructure and core sector projects collectively under a facility called 'Pan-India Pooled Syndication Facility'. This facility will help speedy financial closures of large and national level infrastructure / core sector projects.

Central Bank's online facility for NRIs

Central Bank of India has launched online remittance facility for non resident Indians in the US, in association with Bank of New York, Mellon. Called Centfast2india, the facility offers transfer of funds by remitters in USA to beneficiaries in India through Internet Banking. The beneficiary receives the credit within three working days by way of direct credit to their account with Central Bank of India on CBS platform or through NEFT if the account is maintained with other banks.

Financial Basics

Economic Value Added

A measure of a company's financial performance based on the residual wealth calculated by deducting cost of capital from its operating profit (adjusted for taxes on a cash basis). (Also referred to as "economic profit")

The formula for calculating EVA is as follows :

= Net Operating Profit After Taxes (NOPAT) - (Capital * Cost of Capital) as a percentage of capital employed.

Glossary

Take out Financing

Take out financing is a means to marry short-term funding sources to long-term funding requirements. The first five years of the loan are provided by the bank and for the balance years the loan is sold to government owned institutions like IDFC or IIFCL which can raise long-term resources from the market. This arrangement enables banks to avoid asset liability mismatches arising due to lending long-term.

Balance of Payments

A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.

Important Rates / Ratios

Bank Rate	6.00%
Repo Rate (effective from 27/7/2010)	5.75%
Reverse Repo Rate (effective from 27/7/2010)	4.50%
CRR	6.00%
SLR	25.00%

Benchmark Rates for FCNR(B) / NRE Deposits applicable for the month of August 2010					
LIBOR / SWAP For NRE Deposits					
	LIBOR	SWAPS			
Currency	1 Year	2 Years	3 Years		
USD	1.03669	0.7390	1.0660		
LIBOR / SWAP For FCNR(B) Deposits					
	LIBOR	SWAPS			
Currency	1 Year	2 Years	3 Years	4 Years	5 Years
USD	1.03669	0.739	1.066	1.432	1.788
GBP	1.47813	1.3930	1.7670	2.1400	2.4450
EUR	1.39000	1.438	1.678	1.922	2.165
JPY	0.67125	0.438	0.468	0.528	0.588
CAD	1.91792	1.584	1.943	2.247	2.493
AUD	5.60125	4.920	4.980	5.180	5.290

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Important Notice to the Candidates for the CAIIB Examination

The Institute will be launching the modified structure for CAIIB examination from December, 2010 onwards as already announced (For details refer to http://www.iibf.org.in).

Study material for CAIIB (2010)

The study material for CAIIB is being published by Macmillan India Ltd. For details visit http://www.iibf.org.in.

LIVE Virtual classes

The Institute has arranged LIVE Virtual classes (Live Interactive Virtual Education) for those who are preparing for the forthcoming JAIIB / DB&F / CAIIB examinations. For details please visit our website www.iibf.org.in.

R. K. Talwar Memorial Lecture

The fourth R. K. Talwar memorial lecture was organized by the Institute on 28th July 2010 at the SBI auditorium, Nariman Point, Mumbai 400 021. The lecture was delivered by Dr. Rakesh Mohan, Chairman, National Transport Development Committee, Planning Commission, Government of India on "The Future of Financial Regulation : Some Reflections".

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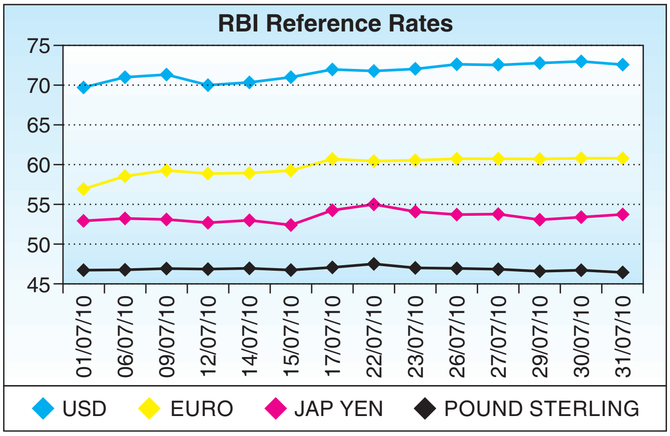
Certificate Course in Project Finance

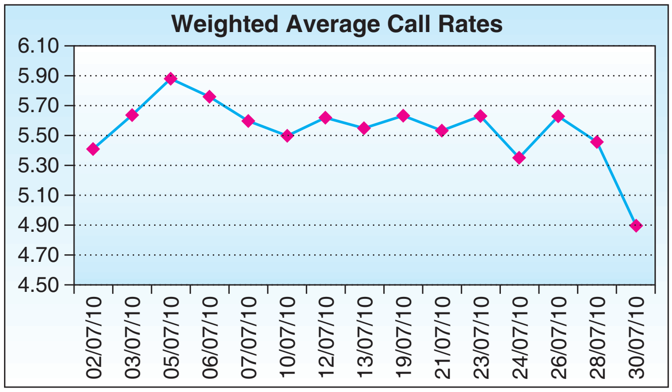
Institute is organising the Certificate Course in Project Finance in collaboration with IFMR, Chennai. The 11th batch will start from 23rd August 2010 to 28th August 2010.

Market Roundup



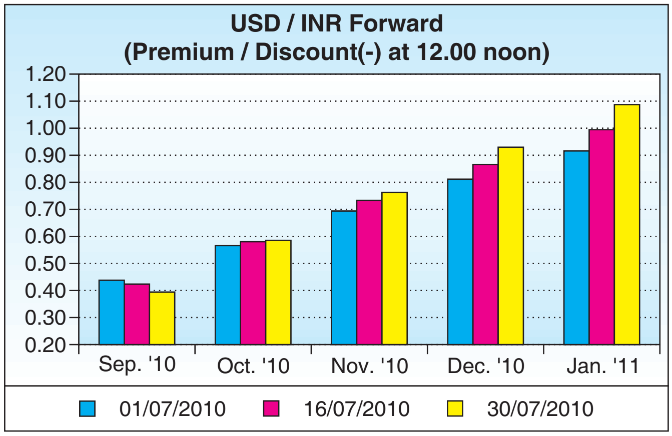
Source : Reserve Bank of India (RBI)

- Around middle of the month, Rupee fell most in a month on concerns that Investors will cut holding in Emerging Market Economies.
- Rupee weakened to its lowest level in six weeks on 20th hitting 47.3850, its lowest since 7th June ,2010.
- Lot of dollar demand on NDF buying.
- Rupee rebounds in third week, as FII investment touched all time high of $96.9 bn.
- Net capital inflows reached Rs.40,700 crore, influencing strength of Rupee.
- During the month, Rupee slightly appreciated and closed at Rs.46.46.



Source : CCIL Newsletter, July 2010

- Call money rates generally hovered above 5.5%



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