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professional excellence

IIBF VISION

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Interim Union Budget Proposals : 2014-15

- Provision of ₹11,200 crore for capital infusion in public sector banks in 2014-15.
- Ministry of MSME to create the 'India Inclusive Innovation Fund' to promote grassroots innovations with social returns to support enterprises in the MSME sector. It is proposed to make an initial contribution of ₹100 crore to the corpus of the Fund.
- Agricultural credit target of ₹8,00,000 crore for 2014-15. Continuation of interest subvention (subvention of 2 percent and an incentive of 3 percent for prompt payment) scheme on farm loans in 2014-15.
- A moratorium period for all education loans taken upto 31/03/2009 and outstanding on 31/12/2013. Government to take over the interest liability for outstanding as on 31/12/2013.
- Centrally Sponsored Schemes to be restructured into 66 programmes for greater synergy.
- To establish a non-statutory Public Debt Management Agency (PDMA) that can begin work in 2014-15.
- To amend the Forward Contracts (Regulation) Act to strengthen the regulatory framework of the commodity derivatives market.
- Steps envisaged to deepen the Indian financial markets : comprehensively revamp the ADR / GDR scheme and enlarge the scope of Depository Receipts, liberalise the rupee-denominated corporate bond market, deepen and strengthen the currency derivatives market to enable Indian companies to fully hedge against foreign currency risks, create one record for all financial assets of every individual and enable smoother clearing and settlement for international investors looking to invest in Indian bonds.
- Fiscal deficit in 2014-15 estimated to be 4.1 percent.

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."

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Top Stories

Flash 'Aadhaar' to get debit card

Soon, people in rural areas would just need to walk into a grocery store with their Aadhaar number to instantly get a debit card. Launched in New Delhi initially under the name Saral Money, major private and public sector lenders are planning to enable Banking Correspondents (BCs) and grocery stores to issue instant debit cards in order to utilize the Aadhaar database for financial inclusion. The Government will be able to send money to people with such cards even if the person does not have a bank account. This would be initiated in two ways - with the help of BCs visiting households and also through Point-of-Sale (PoS) terminals installed at various grocery stores. According to a report by a panel headed by Dr. Nachiket Mor, by January 1, 2016, the number and distribution of electronic payment access points would be such that every resident would be within 15 minutes' walking distance from such a point anywhere in the country.

Banking Policies

Investment limit for foreign investors raised to \$10 billion

In order to attract more long-term dollars into Government bonds, Reserve Bank of India (RBI) has hiked the investment limit for foreign investors (*viz.* sovereign wealth funds, pension funds and foreign central banks) from \$5 billion to \$10 billion. The hike will reduce the debt available for short-term investments to \$20 billion from the earlier \$25 billion. However, the overall investment limit in Government bonds for Foreign Institutional Investors (FII) has been kept at \$30 billion.

RBI eases third party payment norms for export and import

Reserve Bank of India liberalised the third party payment norms for import of goods by removing the ceiling of \$100,000. Earlier, the amount of an import transaction for third party payment could not exceed \$100,000. RBI also simplified certain documentation norms related with third party payments for export and import transactions.

Non-maintenance of minimum balance not chargeable

RBI has asked banks to stop levying penalty on non-maintenance of minimum balance in ordinary savings

bank account. "Instead, they may consider converting such accounts to Basic Savings Bank Deposit Accounts", said RBI in the Annual Report of the Banking Ombudsman Scheme for 2012-13. Furthermore, for improving customer protection, banks and Indian Banks' Association (IBA) will revisit the 'reasonability' of the proposed fee, on transactions done by customers at banks' own ATMs.

Interest on pre-March 2009 education loans waived

Mr. P. Chidambaram, Finance Minister in his 2014-15 interim budget speech, has announced a moratorium on interest payments for education loans taken before March 31, 2009. The Government will pay the ₹2,600 crore of outstanding interest as on December 31, 2013. However, the borrower will have to pay interest for the period after January 1, 2014. Nearly 9 lakh student borrowers will benefit due to this gesture. At the end of December, 2013, PSBs had 25,70,254 student loan accounts with an outstanding amount of ₹57,700 crore.

RBI guidelines for banks' exposure to group entities

RBI has prescribed guidelines exclusively meant for bank transactions and exposures to the entities belonging to their own group. The guidelines contain quantitative limits on financial Intra Group Transactions and Exposures (ITEs) and prudential measures for the non-financial ITEs. This is to ensure that banks engage in ITEs in a safe manner, so as to contain the concentration and contagion risks arising out of ITEs. As per the RBI guidelines, banks should adhere to the following intra-group exposure limits :

For single-group entity exposure

- 5% of the paid-up capital and reserves for non-financial companies and unregulated financial services companies
- 10% of paid-up capital and reserves for regulated financial services companies

For aggregate-group exposure

- 10% of paid-up capital and reserves for all non-financial companies and unregulated financial services companies taken together,
- 20% of paid-up capital and reserves for the group i.e., all group entities (financial and non-financial) taken together
- Banks cannot invest in the equity / debt capital instruments of any financial entities under NOFHC
- Banks cannot take any credit or investments exposure on NOFHC
- They can't take credit or investments exposure on group entities / individuals associated with the promoter group

- Banks should establish internal limits on intra-group liquidity support
- They must maintain transparency when cross-selling products of group companies.

RBI's norms for distressed assets

RBI has notified the rules for forming a Joint Lenders' Forum and adopting a Corrective Action Plan for distressed assets. It has also put certain riders for refinancing project loans and selling Non-Performing Assets (NPAs). The guidelines - 'Framework for Revitalising Distressed Assets in the Economy' - will become operational from April 1, 2014. These include measures such as accelerated provisioning, wherein, if banks conceal the actual status of certain accounts, those accounts will face accelerated provisioning by RBI. In 2002, RBI introduced the Special Mention Accounts (SMA). Before a loan account turns into a NPA, banks are required to identify incipient stress in the account by creating three sub-categories under the Special Mention Accounts. As per RBI guidelines, banks are required to report credit information including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) on all their borrowers having aggregate fund-based and non-fund based exposure of ₹50 million and above with them.

Banking Developments

Banks, cash management firms to talk ATM security

In keeping with RBI's directives to the banks, the Indian Banks' Association (IBA) has formed a working group to look into critical issues of outsourcing cash management services. The directive stems from the increasing risks such as looting of cash vans, hindering such activities. The working group headed by Mr. K. Unnikrishnan, Deputy Chief Executive, IBA, has representatives from Public Sector Banks like SBI as well as private sector banks. With ATMs expanding rapidly across the country, cash management service companies are having a tough time keeping up with the demand due to a shortage of armed security guards, who mandatorily need to be in the cash vans.

ATM transactions without bank account

In another effort towards financial inclusion, RBI has given in-principle approval for establishing a new payment system to facilitate fund transfers from bank-account holders to those without accounts through Automated Teller Machines (ATMs). An intermediary will process the payment and send a code to the recipient on his/her mobile. The code will allow the recipient to withdraw the money from any nearby bank's ATM.

A report on mobile banking by a technical committee of RBI has recommended a standardized procedure for registration and authentication of customers for mobile banking services. It has also recommended the adoption of a common application platform across all banks, which can work on any handset.

Banks may not get PSLs from RRBs at below market prices

PSBs may no longer get a "lower-than-market price" whilst purchasing priority sector loans (PSLs) from the regional rural banks (RRBs) they sponsor. The Department of Financial Services and the National Bank for Agriculture and Rural Development (NABARD) are keeping a close watch on such pricing. The former has asked NABARD to work out a methodology in consultation with RBI, for selling the priority sector portfolio at market-driven prices. During financial year end, banks typically buy PSLs via Inter Bank Participation Certificates (IBPCs) from entities such as RRBs to meet shortfalls in their PSL targets. RBI has mandated that banks lend 40% of their total loans to priority sectors such as agriculture, micro and small enterprises, education and affordable housing. However, banks which are unable to meet this target, buy it from the market. For RRBs, the PSLs for the last three years have been more than 80% as against the targeted level of 60%. So, RRBs are at liberty to sell their excess PSLs to banks seeking them.

IBA advisory to banks about Win XP

IBA has issued an advisory to banks to ensure business continuity even after Microsoft ends support for its popular Windows XP operating system on April 8, 2014. Over 34,000 PSB branches would become vulnerable following Microsoft's extrication from Windows XP.

Bank recoveries improve on tougher steps

Amid a tough macroeconomic environment that has kept asset quality under pressure, banks are trying to recover as much money as they can. From September 2013 to December 2013, most Public Sector Banks have managed to recover money primarily through the sale of bad loans to Asset Reconstruction Companies (ARCs). Experts also feel that banks are being well-collateralized in the form of property or machinery, which compels borrowers to settle their dues rather than default. However, most banks still have concerns regarding asset quality, for which they may have to restructure more loans.

RBI panel to examine recommendations on financial sector reforms

RBI will constitute a committee to examine the recommendations of the Financial Sector Legislative

Reforms Commission (FSLRC) relating to capacity-building in the banking sector. It will examine if the members on bank boards need to be certified-by an appropriately designed course which could be mandatory for every individual before appointment to the board. The committee headed by Mr. G. Gopalakrishna, Executive Director, RBI, will identify capacity building requirements, keeping in view the role of financial sector and what it should deliver. FSLRC has made important recommendations pertaining to nine areas, *viz.* consumer protection, micro-prudential regulation, capital controls, systemic risk, monetary policy, public debt management, contracts, trading and market abuse.

New code may keep bank transactions secure

Now, customers can carry out banking transactions through the internet without worrying about confidential information being accessed by undesired elements. According to the Banking Codes and Standards Board of India's (BCSBI) revised code of commitment of customers, from January, banks will have to take more responsibility for any 'unauthorised' transactions. Similarly, banks have been asked to desist from upgrading accounts without the customer's consent. Though banks cannot insist on a FD, they can still ask for a FD to cover the rent for the locker facility. Banks will also be advised to service customers at their home. This will especially benefit differently-abled customers and senior citizens. However, the new code can also have an adverse impact on customer's credit score, as it takes an ambiguous stand on banks sending repayment data to Credit Information Companies (CIC). Customer can file a complaint with bank's grievance redressal officer or then the bank's nodal officer. If they do not redress customer's grievances, he/she can approach the banking ombudsman.

IMF to RBI : 'Weakening bank balance-sheets is a worry'

International Monetary Fund (IMF) has cautioned Indian authorities to "closely monitor" the deteriorating corporate financial position and weakening balance sheets of banks, especially of PSBs. "There is a need to strengthen prudential regulations of banks' asset quality classification and concentration risks. Indian authorities need to heed the inter-linkages between corporate vulnerabilities and the banking system's health. They also need to modernize the legal and insolvency framework" the Fund said in its wrap-up of the 2014 Article IV consultations with India.

RBI permits 4 non-bank entities to set up white label ATMs

Reserve Bank of India has issued 'certificate of authorisation' to four non-bank entities, namely Tata Communications

Payment Solutions, Muthoot Finance, Prizm Payment Services and Vakrangee Ltd to set up White Label ATMs (WLAs) in the country.

Regulator's Speak...

Macroeconomic factors key for financial stability : RBI

Mr. Deepak Mohanty, Executive Director, RBI has stated that "macroeconomic stability is important for maintaining stability in the financial system. However refined the financial regulation might be, it cannot compensate for weaknesses in the real economy. Hence, macroeconomic stability characterised by fiscal prudence and sustainable growth with low inflation is important to preserve the overall financial systemic stability. The global financial crisis has given a greater macro-prudential orientation to financial regulation and has emphasized on better quality capital to safeguard financial stability."

'Fight inflation for a better future' : Dr. Rajan

Dr. Raghuram Rajan, Governor, RBI has continued his crusade against inflation arguing that his high interest rate policy will make things better. Growth-backers have been critical of the Urjit Patel Committee's suggestion that the RBI should peg the consumer price inflation at 4% in the long-term, with a band of 2% around it. They argue that high interest rates will not tame the prices, since farm prices are expanding the inflation rate. However, Dr. Rajan argues that even the high Minimum Support Prices (MSPs) could be working against lower prices, as they also drive input costs. Since rice and wheat are the primary food commodities procured at MSP, production is distorted towards them both; thus leading to a suboptimal production mix by farmers.

Policy rate appropriately set : Dr. Rajan

Dr. Raghuram Rajan, Governor, RBI has emphasized that India's policy interest rate is appropriately set. Since September 2013, Dr. Rajan has raised rates three times by a combined 75 bps despite economic growth being at a decade-low. He said "RBI does not believe in administering a shock-therapy to a weak economy. It prefers to disinflate over time rather than abruptly, while being prepared to take necessary steps if the economy deviates from the projected inflation path. We are waiting to act until inflation expectations become entrenched, but will overlook temporary spikes in inflation. The monetary policy committee will not put on blinkers and focus only on the inflation number."

Financial inclusion should be the priority in India

Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India said "Financial inclusion is more important than consolidation of banks," at an investor conference. "I don't think it is the time for consolidation. In a society where 50 per cent of the people do not have bank accounts, and 90 per cent of them do not have access to bank credit, and 99 per cent do not have access to capital account, you cannot talk of consolidation," he said.

Step up focus on agriculture insurance : IRDA chief

According to Mr. T. S. Vijayan, Chairman, Insurance Regulatory and Development Authority (IRDA), "the insurance sector should increase its focus on agricultural insurance products and their distribution. Agricultural insurance has largely remained Government-driven and there is greater scope for expansion in the segment. Brokers may focus on agriculture, allied sectors and disaster management insurance products being aided by geometric and remote-sensing technologies."

Forex

Foreign Exchange Reserves		
Item	As on 21 st February 2014	
	₹Bn.	US\$ Mn.
	1	2
Total Reserves	18,244.9	293,405.6
(a) Foreign Currency Assets	16,589.0	266,868.4
(b) Gold	1,254.3	20,075.7
(c) SDRs	276.9	4,455.7
(d) Reserve Position in the IMF	124.7	2,005.8

Source : Reserve Bank of India (RBI)

Benchmark Rates for FCNR(B) Deposits applicable for the month of March 2014					
LIBOR / SWAP For FCNR(B) Deposits					
Currency	LIBOR		SWAPS		
	1 Year	2 Years	3 Years	4 Years	5 Years
USD	0.73150	0.427	0.533	0.728	0.948
GBP	0.90938	0.6319	0.6876	0.7950	0.9737
EUR	0.42786	0.515	0.616	0.762	0.925
JPY	0.45071	0.235	0.239	0.259	0.293
CAD	1.79350	1.325	1.425	1.552	1.679
AUD	3.57500	3.105	3.250	3.455	3.578
CHF	0.25600	0.113	0.193	0.314	0.463
DKK	0.69500	0.7025	0.7950	0.9310	1.1000
NZD	2.69000	2.880	3.068	3.245	3.380
SEK	1.71750	1.432	1.555	1.674	1.804
SGD	0.38500	0.445	0.560	0.780	0.895
HKD	0.42000	0.470	0.570	0.730	0.930
MYR	3.24000	3.250	3.320	3.380	3.460

Source : FEDAI

Forex dealers to get new IT system

RBI has stated that a comprehensive IT-based system will be available to banks authorized to deal in forex, to report all the returns / statements relating to export of goods / services through a single platform. The Export Data Processing and Monitoring System (EDPMS) will enable banks to submit various returns such as export outstanding statements, export bills negotiated / sent for collection, realization of export proceeds, write-off of export bills and extension of realization of export. As of now, these returns are being managed on a different solo application or manually.

Economy

NCAER lowers India FY14 growth forecast to 4.7-4.9%

National Council of Applied Economic Research (NCAER) has lowered the GDP projection for the current fiscal to 4.7-4.9% due to exchange rate depreciation. GDP growth rate for 2013-14 (based on quarterly and annual models) points to a growth of 4.7-4.9%. Earlier in November 2013, NCAER had lowered the growth projection to 4.8-5.3% for 2013-14 from its previous forecast of 5.9%. An economist with the think-tank said "Since we saw a better rainfall and the baseline oil price increased by 1%, earlier we had assumed a depreciation of 9.5% in the exchange rate on a y-o-y basis. But now we assume the exchange rate depreciation to be 11%. This makes a significant dent to growth of GDP."

New Appointments

Name	Designation / Organisation
Mr. Jatinderbir Singh	Chairman and Managing Director, Punjab & Sind Bank.
Mr. Yaduvendra Mathur	Chairman & Managing Director, Export Import Bank of India (Exim Bank)
Mr. D. K. Divakara	Executive Director, Central Bank of India
Mr. R. K. Takkar	Executive Director, Dena Bank

Rural Banking

NABARD to help fund tiny infrastructure projects in villages

With banks concentrating on funding main-stream infrastructure projects, NABARD is exploring the feasibility of supporting micro-infrastructure in villages. NABARD could support the 'gram panchayat' to develop micro-infrastructure projects in villages viz. bore-wells, sanitation, electrification (solar / biogas / windmill), warehouse to store

farm produce, and farm equipment - power-tillers, combine harvesters, reapers, etc. According to Dr. Harsh Kumar Bhanwala, Chairman, NABARD there is a need to evolve a framework for meeting the funding requirements of micro-infrastructure projects so that villages prosper.

NABARD gives fillip to warehouse infrastructure

In order to meet the additional storage requirements arising out of the National Food Security Act, 2013; as also, to augment the storage requirements of agricultural commodities for greater market access & liquidity support, NABARD has been encouraging the creation of warehousing infrastructure in rural areas. NABARD warehousing scheme was introduced in 2013-14 as a sequel to the Union Budgetary announcement with a corpus of ₹5,000 crore. The scheme envisages financial support for warehouses, godowns, silos, cold storages and cold chain infrastructure to store agricultural produce in the public and private sectors. The warehouses funded under the scheme relate to storage of food grains for public distribution system, storage of food grains & commercial crops, as well as storage infrastructure in Kisan bazaars and APMCs. NABARD intends to give a special focus on augmenting warehousing infrastructure in States with food deficit such as Jharkhand, Chhattisgarh and North Eastern States.



Products & Alliances

Organisation	Organisation tied up with	Purpose
RBI	The Central Bank of Sri Lanka	Memorandum of understanding (MoU) on "Supervisory co-operation and exchange of supervisory information"
Small Industries Development Bank of India (SIDBI)	Bahrain Development Bank	To help Indian MSMEs expand their business to Bahrain
Canara Bank	National Collateral Management Services Ltd. (NCML)	For collateral management and warehousing services. The main objective of the partnership is to assist industries, traders and farmers in financing their capital requirements at all stages of the supply chain, ranging from pre-harvesting to the marketing and export stages
Bharatiya Mahila Bank (BMB)	SBI Cards and Payments Services Private Limited (SBICPSL)	For issuing of credit cards to customers of Bharatiya Mahila Bank Ltd.,

Basel III - Capital Regulations (Continued...)

The risk weight in respect of the unsecured portion of "Other Specified categories" shall be as under :

Sr. No.	Category	Risk Weight (%)
01.	Venture capital	150 or higher
02.	Consumer credit including personal loans, credit card receivables, but excl. educational loan	125
03.	Capital market exposure	125
04.	Investment in capital instruments of NBFC	125
05.	The exposure to equity instruments issued by NBFCs	250
05.	Investment in paid up equity of non-financial entities (other than subsidiaries) where investment is below 10% of equity of investee entity. Above 10%	125 1111
06.	Staff loans backed fully by superannuation benefits and/or mortgage of flat / house	20
07.	Other loans and advances to staff eligible for inclusion under retail portfolio	75
08.	All other assets	100
09.	Off balance sheet items (Market related and non-market related items)	As detailed in the RBI Circular.
10.	Securitization Exposure	As per Cir. Based on rating by external credit agency
11.	Commercial real estate (MBS backed)	-do-

External Credit Assessment

RBI has identified various credit agencies whose ratings may be used by banks for the purposes of risk weighting their claims for capital adequacy purposes under the revised framework as under :

- Brickwork Ratings India Pvt. Limited (Brickwork);
- Credit Analysis and Research Limited;
- CRISIL Limited;
- ICRA Limited;
- India Ratings and Research Private Limited (India Ratings); and
- SME Rating Agency of India Ltd. (SMERA)

International Agencies

- Fitch
- Moodys; and
- Standard & Poor's

Banks are required to use the chosen credit rating agencies and their ratings consistently for each type of claim, for both risk weighting and risk management purposes.

The revised framework recommends development of a **mapping process** to assign the ratings issued by eligible credit rating agencies to the risk weights available under the Standardized risk weighting framework. Under the Framework, ratings have been mapped for appropriate risk weights applicable as per **Standardized approach**. The risk weight mapping for Long Term and Short Term Ratings are detailed in the RBI Circular dated 01/07/2013.

Source : Reserve Bank of India (RBI)

Financial Basics

Restructuring

A restructured account is one where the bank grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments and rate of interest. It is a mechanism to nurture an otherwise viable unit, which has been adversely impacted, back to health.

Glossary

Credit Information Company

A Credit Information Company collects and maintains records of an individual's payments pertaining to loans and credit cards. These records are submitted to the CIC by banks and other Credit Institutions, on a monthly basis. This information is then used to create Credit Information Reports (credit reports) which are provided to Credit Institutions in order to help evaluate and approve loan applications or any other credit applications. If required by the loan provider a CIC will also provide a Credit Score, which is a 3 digit numeric summary of borrower's credit report. CICs are also commonly referred to as "Credit Bureaus".

Institute's Training Activities

Training Programme Schedule for the month of March 2014

Sr. No.	Programme	Date
1.	Certified Banking Compliance Programmes	3 rd to 7 th March, 2014 at Delhi and Chennai
2.	Certified Banking Compliance Programme	10 th to 14 th March, 2014 at Mumbai

Sr. No.	Programme	Date
3.	Certified Bank Trainer Training Programme	3 rd to 7 th March, 2014 at NIBM, Pune

Training activities completed during the month of February 2014

Sr. No.	Programme	Date
1.	Programme for newly recruited officers of Bharatiya Mahila Bank	4 th to 15 th February, 2014
2.	International Training Programme for trainers of banks, Banking Institutes and Financial Institutions	10 th to 15 th February, 2014
3.	Programme on forex operations for officers of DBS Bank Ltd.	20 th to 22 nd February, 2014
4.	Certified Banking Compliance programme	24 th to 28 th February, 2014 (Mumbai)

News From the Institute

Cut off date for Regulatory Guidelines

Candidates may note that in respect of the exams to be conducted by the Institute during November / December and May / June of a particular year, instructions / guidelines issued by the regulator(s) up to 31st July and 31st January respectively of that year will only be considered for examination purpose.

Diamond Jubilee & CH Bhabha Banking Overseas Research Fellowship 2014

The last date for submission of applications for the Diamond Jubilee and CH Bhabha Banking Overseas Research Fellowship (DJCHBBORF) - 2013-14 is extended up to 31st March 2014. For details visit www.iibf.org.in.

Additional Reading Materials for Institute's examination

The Institute has put on its web site additional reading material, for various examinations, culled out from the Master Circulars of RBI and other sources. These are important from examination view point. For more details visit Institute's web site www.iibf.org.in.

Collaboration

IIBF has entered into an MOU with Bahrain Institute of Banking & Finance on 21/02/2014 at Mumbai for collaborating in the area of banking education & training.

IIBF Vision via E-mail

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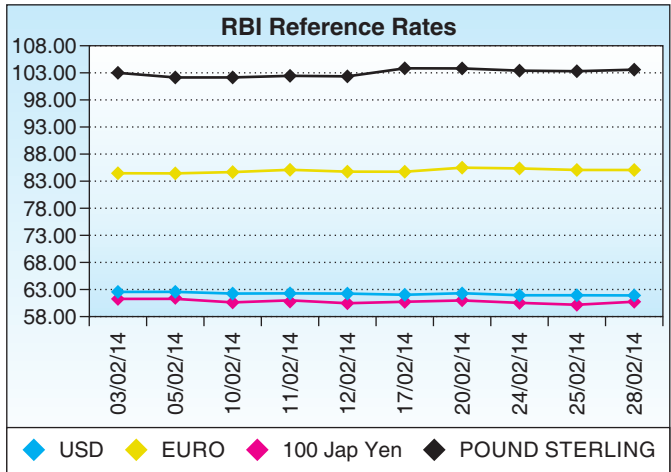
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Green Initiative

Members are requested to update their e-mail address with the Institute and send their consent to receive the Annual Report via e-mail in future.

Market Roundup



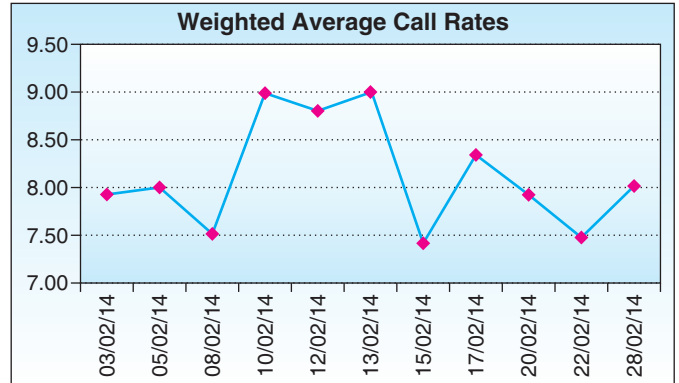
Source : Reserve Bank of India (RBI)

- Rupee oscillated between 62.11 and 62.58 during the first 13 days of the month.
- Rupee closes at 61.86 to a dollar on 17th on the day of budget.
- The rupee on 20th softened by a paise to close at 62.23 against the dollar on late demand for the American currency from importers and tracking weakness in local equities.
- Rupee closed finally on the last day at 62.072 to a dollar recording an appreciation of 0.98% during the month.

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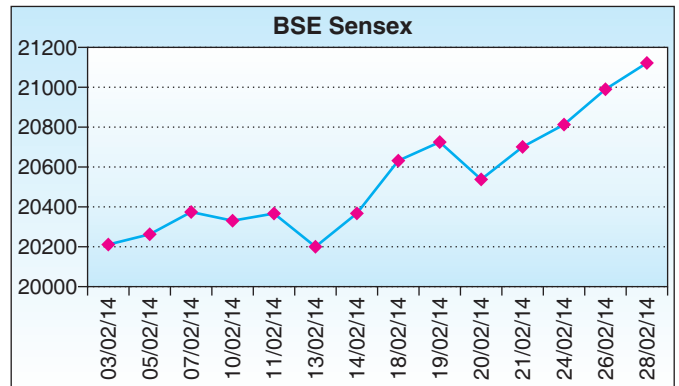
INDIAN INSTITUTE OF BANKING & FINANCE
 Kohinor City, Commercial-II, Tower-I, 2nd Floor, Kiro Road, Kurla (W), Mumbai - 400 070.
 Tel. : 91-22-2503 9604 / 9746 / 9907 ● Fax : 91-22-2503 7332
 Telegram : INSTIEXAM ● E-mail : iibgen@iibf.org.in
 Website : www.iibf.org.in

- Rupee slightly depreciated by 0.63% and 0.53% against GBP and EURO respectively during the month.
- Rupee however, showed slight appreciation of 0.68% against JPY during February 2014.



Source : CCIL Newsletter for February 2014

- Call rates oscillated between a low of 7.41 and a high of 9 per cent.
- Very tight liquidity conditions prevailed during mid-month.
- The call money market exhibited tight money conditions throughout, with spells of easy conditions in between.



Source : Bombay Stock Exchange (BSE)