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Committed to professional excellence

IIBF VISION

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RBI - Mid Quarter Policy - 16th June 2011

Policy measures

- Hike in repo rate by 25 basis points (bps) to 7.5.
- Reverse repo rate becomes 6.5%.
- Cash Reserve Ratio (CRR) retained at 6%.
- Marginal standing facility increases to 8.5%.

Inflation

- Global commodity prices still remain the key external risk.
- Domestic inflation persists at uncomfortable levels.
- Fuel prices yet to reflect global crude oil prices.
- Monetary policy stance remains firmly anti-inflationary.
- WPI inflation numbers for April, May likely to be revised upwards.
- Headline inflation rate remains elevated, consistent with projections.
- Non-food manufactured inflation suggests more generalized price pressures.

Growth

- Margins, credit growth do not suggest a sharp or broad-based deceleration.
- Short-run growth deceleration may be unavoidable in controlling inflation.
- Monetary transmission quite strong.
- Higher cost of credit limiting credit growth, but it remains fairly high.
- To maintain neither surplus nor large deficit liquidity conditions.
- Recent global macroeconomic developments pose risks to domestic growth.

Top Stories

Public sector banks plan major hiring this year too

PSBs will continue their recruitment drive this financial year as well. Mr. M Balachandran, Director, Institute of

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

Banking Personnel Selection (IBPS) which helped PSBs fill 48,000 vacancies last year, expects an encore this year too. Given the huge demand for manpower over the next few years, IBPS is planning to offer 'jobs-ready' candidates to the banking system.

Jharkhand women's co-operative bank a success

'Didi Bank', a co-operative bank for women has become a success in the remote villages of Jharkhand's West Singhbhum within a year after its inauguration. The all-women private co-operative bank, registered on July 9, 2009, has a roster of 847 members from 87 self-help groups (SHG) of the total 135 in the block.

Banking Policies

RBI recommends steps to make card deals safer

A working group set up by RBI has recommended steps to make card transactions safer. To start with, banks will have to strengthen their existing payment infrastructure by securing technology; improving fraud risk management practices across all stakeholders; and strengthening the merchant process. However, the implementation of these steps by banks may take two more years.

RBI tightens rules to rein in fraud

Stung by a series of financial frauds over the past six months, RBI has unveiled measures to tighten internal controls in banks. It has asked foreign and private banks to institute an internal vigilance officer and laid down stringent norms to prevent frauds. These norms are based on the feedback of forensic scrutinies.

RBI to levy 25-50 paise processing fee from July

From July 1, 2011, RBI has levied a processing fee of 25-50 paise for inter-bank retail electronic payments. 25 paise are levied on the originating bank for outward and return transactions. The originating bank will also pay 25 paise for every credit transaction and 50 paise for every debit transaction.

Banks allowed to have 2 insurance partners

An Insurance Regulatory & Development Authority (IRDA) panel has recommended that one bank should be permitted to sell products of two insurers, as against the current one insurer only. These tie-ups may be with any two sets of insurers viz. two in life insurance sector; two in non life insurance sector, excluding health; two in health insurance sector; and ECGC; and Agriculture Insurance Corporation. These recommendations have been made to achieve a higher insurance penetration & density; higher levels of policy holder servicing; and to provide a proper regulatory framework.

RBI restricts NBFCs from opening branches abroad

RBI has barred Non-Banking Financial Companies (NBFCs) from opening branches abroad. However, those NBFCs already having branches abroad will be allowed to continue their operations, subject to compliance with the revised guidelines. Nevertheless, the regulator has allowed NBFCs to set up representative offices and subsidiaries abroad; provided the subsidiaries are not used as vehicles to raise resources for Indian operations.

SEBI amends norms for bankers

In order to obliterate unnecessary rules and red-tapism, market regulator Securities and Exchange Board of India (SEBI) has waived the requirement for bankers, debenture trustees and credit rating agencies to seek its approval to change their status and constitution. Now, SEBI approval should be sought only in case of change in control.

Banking Developments

HFCs to face higher provisioning

Housing finance companies (HFCs) are set to face higher provisioning norms, as the National Housing Bank (NHB) plans to introduce standard asset provisioning of 0.4% on retail advances. HFCs will now have to set aside additional capital for their performing retail home loan portfolio.

Banks NPAs may rise, says Central Bank of India

Mr. S. Sridhar, CMD, Central Bank of India avers that the industry's non-performing assets (NPAs) are likely to increase, since smaller companies that borrowed when the rates were low would find it difficult to service their loans due to the increase in rates, because of a lower access to money, compared to the past.

Banks asked to gear up for second phase of financial inclusion plan

Providing outreach to un-banked villages has got tougher for banks. Once they attain the target of penetrating about 73,000 un-banked villages by March 2012, the Government wants them to further cover all the 6 lakh odd villages. The Government is keen that banks cover all rural habitations in the second phase of their financial inclusion plan (FIP), beginning April 2012, as it wants to route all benefits under its social security schemes through electronic benefit transfer (EBT).

Electronic bank realization certificates for exporters proposed

The Ministry of Commerce and Industry is planning to initiate talks with RBI, Indian Banks Association

(IBA) and the top management of nationalized banks to implement the electronic disbursement of Bank Realisation Certificate (BRC) for exporters to speed up the duty reimbursement procedures with the ministry.

Loans against fixed deposits - cheap for borrowers, safe for banks

Loans against bank fixed deposits are gaining popularity. On a y-o-y basis, these loans have jumped by about 25% in April 2011, against about 3% in April 2010. In absolute terms, loans against bank deposits shot up by ₹11,966 crore between April 23, 2010 and April 22, 2011, against just ₹1,286 crore between April 24, 2009 and April 23, 2010. In the current rising interest rate regime, bank customers who have FDs contracted at a lower interest rate in the last few years could find it advantageous to avail loans against these deposits for emergencies and to tide over temporary liquidity mismatches.

Bank credit to NBFCs jumps 55% in April

Credit off-take by NBFCs and commercial real estate sectors rose substantially on a y-o-y basis in April 2011 *vis-a-vis* April 2010. Credit growth to NBFCs at 55.7% on a y-o-y basis in April 2011 was significantly higher than the 15.1% growth in the corresponding previous year. Credit to NBFCs shot up by ₹62,244 crore between April 23, 2010 and April 22, 2011.

Deposits pick up; bank credit down

Bank deposits continued to rise, owing to attractive interest rates on retail and corporate deposits. As on May 20th, deposits rose 17.37% annually. Retail deposits are going strong, as banks are offering higher interest rates on short-term deposits as well. Also, part of the growth could be from the roll-over of certificates of deposits (CDs) issued by banks in the last financial year.

Retail investor interest shifts to bank deposits from small-savings

Retail investors are diverting a larger proportion of their holdings in small-saving schemes - mainly post-office instruments - to bank deposits owing to the attractive rates of interest on the latter. The behaviour reinforces a phenomenon of savers actively scouting for better returns and shifting their surpluses in tune with the changing rates. With bank deposits turning attractive once again in 2010-11, outstanding deposits grew 16% y-o-y to about ₹52 lakh crore in March-end 2011.

Public sector banks spread their lending risks among larger numbers

During the last fiscal, PSBs made a determined effort to spread their risks among more borrowers, as against earlier lending to a few top borrowers. Now, they have reduced the proportion of loans they give to their top 20 borrowers. PSBs like Bank of Baroda (BoB), Punjab National Bank (PNB), Union Bank and Oriental Bank of Commerce have scaled down their proportion of top borrowers by a more moderate percentage, even if the absolute amounts showed a slight increase. Banks have made a similar attempt to de-risk their liabilities side (too) by reducing the concentration of their top 20 depositors in the last fiscal, by lesser recourse to bulk deposits. However, they are also watchful that this could lead to cornering of resources by a few and consequent concentration risks. Risk management committees monitor such exposure at regular intervals. So, periodically, banks rebalance the liabilities and assets in their portfolio.

Banks' reliance on market borrowings could impact liquidity

Expressing concerns over increased reliance of banks on non-traditional sources of funds, RBI fears that high level of borrowed money could adversely impact their liquidity position. The growth in deposit mobilization, at around 18%, has not kept pace with the growth in credit. The gap was funded by increase in funds accessed from the market (CDs, issuances and borrowings), which increased by 34.5% over its position as at end-March, 2010. The share of borrowings and CDs in banks' liabilities rose to about 10% in 2011 from about 7.5% in 2006. Particularly, the period from October 2010 to February 2011, during which the systemic liquidity conditions were strained, witnessed increased CD issuances with interest rates rising to 9-10%.

Banks borrow above ₹1 lakh crore via LAF : Yields at 6-week low

Bank borrowings from RBI's liquidity adjustment facility (LAF) window recently climbed to a three month high on the back higher advance tax outflows. In order to meet liquidity demands, banks borrowed about ₹1.1 lakh crore through the repo LAF - the highest since March 18, 2011. Meanwhile, there was only one deal on the reverse-repo window worth ₹200 crore. The yield on 10-year bench mark government dropped to the lowest level in six weeks at 8.19% on speculation that RBI will pause its rate hiking spree and inflation will ease as crude oil prices cool off.

Lending aggressively to Infra cos. may hurt banks' asset-liability profile

According to an ICRA report, banks could find it tough to manage their asset-liability profile if they continue to lend aggressively to the infrastructure sector. Deregulation of saving rate, which might compel banks to pay higher rates on low-cost deposits, might also compound the problem. In March 2011, banks' exposure to the infrastructure sector stood at 14% of total loan book; while share of savings account to total deposits was about 22%.

Short-term debt rates fall despite liquidity

The interest rates on short-term debt instruments continued to fall, even as liquidity conditions worsened due to advance tax outflows. Reportedly, rates on CDs and CPs have fallen by at least 75-100 bps since the beginning of this month. Low demand from banks, renewed investor appetite and expected improvement in liquidity conditions in near future have contributed to the easing of interest rates. “Banks have shed bulk deposits, as credit off take is low and there is no need to maintain high cost deposits,” opines Mr. Pawan Bajaj, DGM, Treasury, Bank of India (BoI).

Regulators Speak...

PSBs should look into HR concerns

Dr. K. C. Chakrabarty, Deputy Governor, RBI, has stated that “recruitment, upgradation of skill and cultural adjustment would be the major challenges for public sector banks (PSBs) in the future. Acquiring talent, retaining it and lateral recruitment at higher levels is the way ahead for them.” Currently, banking sector in India employs around one million people; of which, nearly 75% are employed by PSBs.

Banks must make Business Correspondent model more viable : RBI

“Banks have to innovate their organizational structures and support systems to increase the viability and the sustainability of the business correspondent (BC) model” opines Dr. Subir Gokarn, Deputy Governor, RBI adding “It is reasonably clear that the model is not infinitely scalable. However, despite these concerns, it is a good beginning. With appropriate adaptations to local conditions this generic model is most likely to achieve at least minimal access to the financial system through a basic or no-frills bank account”.

Cut MIS, NSC period : Panel

A reduction in the maturity period of monthly income schemes (MIS) and NSC; an upward revision of the ceiling on annual subscription in PPF from ₹70,000 to ₹1 lakh; and a revision in the rate of interest in post office savings from 3.5% to 4%, are among the major recommendations of the committee for the comprehensive review of National Small Savings Fund (NSSF), headed by Ms. Shyamala Gopinath, Deputy Governor, Reserve Bank of India (RBI). The committee has also recommended the discontinuation of Kisan Vikas Patra (KVP) and the continuation of other schemes with suitable modifications.

High NPAs may force RBI to raise provisions

Expressing concern about the growing NPAs of lenders, Dr. K. C. Chakrabarty, Deputy Governor, RBI, has said that Indian Banks could see higher provisioning for bad loans unless they get better at managing their portfolios. On an additional note, Dr. Chakrabarty has pointed out that banks have not yet started lending to microfinance companies, despite the RBI having urged banks to finance MFIs and restructure their loans. Banks are in talks with MFIs to restructure loans worth about ₹10,000 crore.

RBI doesn't see stress on liquidity in short term

Ms. Shyamala Gopinath, Deputy Governor, RBI has stated that the apex bank does not see any stress on liquidity in the short-term as indicated from ruling call rates. Earlier, market participants were expecting a liquidity crunch in the system on the back of advance tax out-flows which were due by June 15,2011.

Financial stability mandate must gel with monetary policy

According to Dr. Subir Gokarn , Deputy Governor, RBI “The financial stability mandate given to central banks should be compatible with operation of monetary policy to manage inflation expectation and economic growth. The global crisis has questioned the premise that price stability and financial stability are complementary. Rather financial stability can be jeopardized even in an environment of price stability and macro-economic stability.”

Banks must make services cost-effective

Dr. K. C. Chakrabarty, Deputy Governor, RBI has exhorted banks to make their services cost-effective, since, only by doing so will banks be able to establish customers' rights. Further, Dr. Chakrabarty has asked bankers to leverage technology to make financial inclusion a reality. “Expansion and retention of business are the two challenges before bankers. Money lenders still hold sway as banking penetration is only around 40%.

Banks must improve risk monitoring capabilities

RBI wants banks to improve their risk monitoring capabilities to prevent possible deterioration in asset quality in the current rising interest rate regime. Dr. K. C. Chakrabarty, Deputy Governor, RBI, says that when the economic becomes difficult, banks should improve their risk management capabilities. Then they will not face any problem on the credit quality front. With the credit off-take situation being 'okay' at best, RBI is watchful about the exposure of banks to all sectors of the economy and not just retail, commercial real estate and infrastructure.

Attract savings from rural low-income groups - RBI to MFs

RBI has asked the domestic mutual fund (MF) industry to conjure appropriate schemes to attract the savings of low-income groups, especially from the rural belt. Despite having a long history, the fund industry has assets less than 10% of the country's GDP. Dr. Subir Gokarn, Deputy Governor, RBI has said, “The role of mutual funds in promoting saving continues to be insignificant in India. Attracting low-income groups is the only way to ensure participation of all categories (of investors) in the financial market.”

Forex

Foreign Exchange Reserves		
Item	As on June 17, 2011	As on June 17, 2011
	₹Crore	US $ Mn.
Total Reserves	13,95,599	310,562
a) Foreign Currency Assets	12,51,794	278,610
b) Gold	1,09,832	24,391
c) SDRs	20,655	4,597
d) Reserve Position in the IMF	13,318	2,964

Source : RBI

Benchmark Rates for FCNR (B) / NRE Deposits applicable for month of July 2011					
LIBOR / SWAP For NRE Deposits					
Currency	LIBOR	SWAPS			
	1 Year	2 Years	3 Years		
USD	0.73350	0.6940	1.0890		
LIBOR / SWAP For FCNR (B) Deposits					
Currency	LIBOR	SWAPS			
	1 Year	2 Years	3 Years	4 Years	5 Years
USD	0.73350	0.694	1.089	1.542	1.952
GBP	1.57875	1.4280	1.7970	2.1470	2.4730
EUR	2.13750	2.165	2.375	2.597	2.789
JPY	0.56000	0.393	0.426	0.481	0.561
CAD	1.85167	1.712	1.980	2.232	2.468
AUD	5.49000	5.009	5.130	5.390	5.510

Source : FEDAI

Forex reserves decline by over $2 billion to $310.50 billion

After increasing for three consecutive weeks, foreign exchange reserves declined by $2.401 billion to $310.503 billion for the week ended June 10. In the earlier week, forex reserves had increased by $2.689 billion to $310.503 billion. The decline in reserves for the period under consideration is mainly due to change in currency valuation.

Microfinance

Gujarat steps into microfinance for SHGs

Gujarat is putting in place a ₹1,500 crore net-work of microfinance linkages to empower over nine lakh Self-Help Groups (SHGs) in the state. This will be the country's largest government-driven micro-finance linkage involving nationalized banks.

Self-help groups will get bank loans at 7%

Self-help groups (SHGs) will now be able to access bank credit at 7% on par with the crop loans, as announced by Mr. Jairam Ramesh, Minister of State for Environment and Forests. Presently SHGs get bank-loans at a rate of 12% under the bank-linkage programme.

Economy

Capital Inflows not sensitive to Interest Rate Changes : RBI

An RBI study states that foreign capital inflows are insensitive to interest rate changes in the country. A percentage point rise in interest rate results in just about 0.05 percentage point increase in net capital flows to India. Domestic industrial and economic activity, stock return, performance of other advanced economies and overseas investors' risk perception are major factors that attract foreign capital. With this observation, RBI has assailed fears that a tightening monetary policy may slow down the net capital inflows in the country.

Expect economy to grow by 8.5% in FY 12

Dr. C. Rangarajan, Chairman, Prime Minister's Economic Advisory Council (PMEAC) expects the Indian economy to grow by 8.5% in FY-12 following expansion of the services sector and industry. However, he has hinted that agriculture might not be a big contributor to this growth spree. “Nevertheless, it is prudent to aim at a growth rate between 9% and 9.5%. Pushing the economy beyond that will run into problems” he opines. In its monetary policy for 2011-12 released earlier, the RBI had projected the economy to grow by 8% this fiscal, lower than the government's original forecast of 9%.

High inflation to persist, growth faces downside risks

RBI has observed that recent decline in international oil prices may not help in inflation management; as complete pass-through of previous escalations is still to come into effect. Wholesale inflation for May came in higher than the expected 9.06% - disappointing economists who are predicting a 50-75 bps rise by the end of the year. In its third Financial Stability Report (FSR), RBI mentions that "Inflation is likely to face upward pressure from higher subsidy expenditure of the government and rise in wages and raw material prices." The FSR notes that the impact of monetary policy actions, together with slackening global recovery and a deceleration in domestic industrial growth, pose downside risks to India's gross domestic product (GDP) growth during 2011-12. The slowdown in growth momentum may affect the asset quality of the financial sector. More-over, management of government expenditure, especially the subsidies bill, will pose challenges to the process of fiscal consolidation. This could be further accentuated by a tempered growth adversely impacting the revenue collections.

Ahluwalia proposes more financial sector reforms

Planning Commission Deputy Chairman, Dr. Montek Singh Ahluwalia feels that "India should continue with the process of financial sector reforms and not look at further tightening the existing controls in the financial system". He avers "We need to liberalise the financial system. There is lot of questioning about the usefulness of financial liberalization, which is actually well positioned; But generally, a liberal financial system contributes to growth. Of course there is a turning point beyond which further financial liberalization will have no impact whatsoever. We have an ideal system and not continuing to move forward will be serious mistake."

Large govt borrowings may limit credit growth at 17-18% : ICRA report

According to rating agency ICRA, large government borrowing, as projected in the annual Budget, may allow for only 17-18% growth in credit; as banks would have to set aside funds for subscribing to government securities (G-secs). The net borrowing of the Central and State governments through bonds is estimated to be about ₹4.7 lakh crore in 2011-12 (*vis-a-vis* ₹4.1 lakh crore in 2010-11). Since banks fund around 40% of these bonds, they would need to set aside ₹1.9 lakh crore for the purpose. If deposits were to grow by 17% the remaining funds would support only 17-18% credit growth.

New Appointments

RBI appoints two Executive Directors

RBI has promoted two of its Chief General Managers, Mr. P. Vijay Bhaskar and Mr. B. Mahapatra, to the post of Executive Director.

Dr. Prakash Bakshi appointed as new Chairman of NABARD

Dr. Prakash Bakshi, has taken over as the Chairman of National Bank for Agriculture and Rural Development (NABARD). Prior to this he was Executive Director of NABARD.

Mr. R. K. Bammi appointed as Executive Director of Axis Bank

Mr. R. K. Bammi has taken charge as Executive Director of the retail banking division of Axis Bank.

Mr. Patni appointed MD and Head of Equities of HSBC

HSBC has appointed Mr. Chetan Patni as the Managing Director and Head of its Equities business in India.

Products & Alliances

Organisation	Organisation tied up with	Purpose
Tamilnad Mercantile Bank	HDFC Asset Management	For marketing the latter's mutual fund products through select authorized branches of the bank.
Indusind Bank	Electra Card Services (ECS)	For providing value-added services to its credit card customers. Will provide bank technology and processing services for its credit card business.
Small Industries Development Bank of India (SIDBI)	Japan International Co-operation Agency (JICA)	For financing energy saving projects undertaken by Indian micro, small and medium enterprises (MSMEs), to promote energy saving among MSMEs by providing financial assistance through SIDBI and through refinance assistance by SIDBI to banks, State Financial Corporations (SFCs) and NBFCs.
Life Insurance Corporation of India (LIC)	Axis Bank	To offer co-branded credit cards to its policy holders and employees. It will have a photo of the cardholder and a signature digitally imprinted on it. It would be valid internationally and

Organisation	Organisation tied up with	Purpose
		would facilitate policyholders to pay premium from other places, thus saving on the bank charges.
Federal Bank	Visa	To all Federal Bank Visa Debit cardholders to receive international remittances in real time, thus giving money quickly and securely.

Bank for International Settlement (BIS)

As part of Institute's efforts to understand the role and importance of BIS in ensuring monetary and financial stability, we have provided, in the previous issue, a glimpse of the structure and organization of 'Committee on the Global Financial system'. Continuing the efforts in the same direction, we give below the mandate for the committee as approved by the Governors of the G10 central banks on 8 February 1999.

The Committee on the Global Financial System is a central bank forum for the monitoring and examination of broad issues relating to financial markets and systems with a view to elaborating appropriate policy recommendations to support the central banks in the fulfillment of their responsibilities for monetary and financial stability. In carrying out this task, the Committee will place particular emphasis on assisting the Governors in recognizing, analyzing and responding to threats to the stability of financial markets and the global financial system. More specifically, the Committee's primary objectives will be the following :

- To seek to identify and assess potential sources of stress in the global financial environment through a regular and systematic monitoring of developments in financial markets and systems, including through an evaluation of macroeconomic developments;
- To further the understanding of the functioning and underpinnings of financial markets and systems through a close monitoring of their evolution and in-depth analyses, with particular reference to the implications for central bank operations and broader responsibilities for monetary and financial stability;
- To promote the development of well-functioning and stable financial markets and systems through an examination of alternative policy responses and the laboration of corresponding policy recommendations.

In its analysis, the Committee should pay particular attention to the nexus between monetary and financial stability, to the linkages between institutions, infrastructures and markets, to the actual and potential changes in financial intermediation and to the incentive structures built into markets and systems. The Committee should seek to increase the transparency of financial markets and systems by promoting the design, production and publication of statistics and other information by central banks - including through the BIS - and by recommending the adoption of appropriate disclosure standards by both the official and private sectors. Where relevant, the Committee should also contribute to the development of an international consensus on sound principles and norms.

The Committee is encouraged to co-operate with other national, supranational and international institutions with responsibilities for pursuing related objectives. In particular, it shall co-ordinate its activities with other Basel-based committees, such as the Basel Committee on Banking Supervision and the Committee on Payment and Settlement Systems, in order to strengthen the overall effectiveness of the process.

Financial Basics

Non-personal Time Deposit

Time deposit accounts held by corporate bank customers that pay a fixed amount of interest for a specified time period. Money may not be withdrawn without advance notice at the risk of incurring an early withdrawal penalty. Examples of non-personal time deposits include money market deposit accounts, certificates of deposit and investment accounts.

Glossary

Standard Asset Provisioning

This is the provision which banks are required to make from their profits against those assets which are performing (standard assets) and the rate of provisioning is different for different types of assets, currently capped at 1% of global outstanding.

Institute's Activities

Training at Leadership Centre, IIBF, Kurla

The first study tour cum training programme was organized by the Institute at its Leadership Centre, Kohinoor city, Kurla, on Financing of SME sector for a team of bankers from Egypt from 20th June to 24th June 2011. The programme was attended by 15 delegates.

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News From the Institute

Project Finance

Institute is organising the 15th Certificate Course in Project Finance in collaboration with IFMR, Chennai. The campus training for the batch is scheduled from 21st August to 27th August 2011. For details visit www.iibf.org.in.

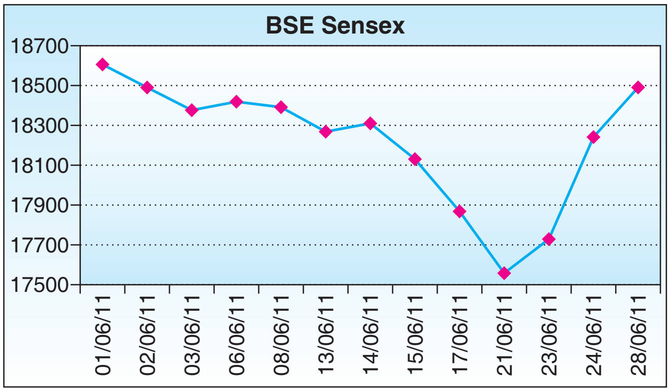
Micro / Macro Research

Micro / Macro Research proposal for the year 2011-12 are invited by the Institute. For details visit www.iibf.org.in.

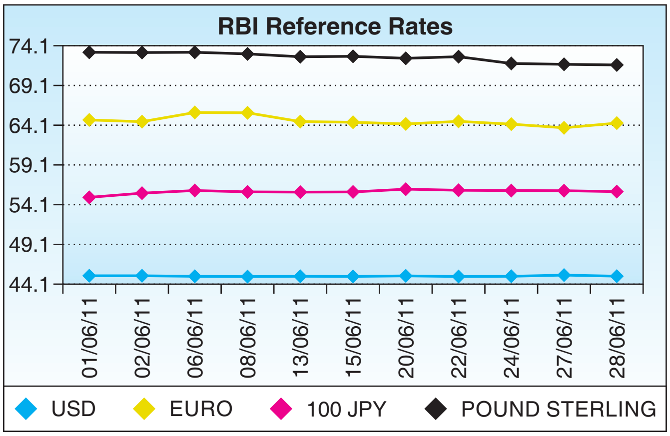
Associate / Fellow Membership

The criteria for Associate / Fellow Membership are under revision and no fresh application will be accepted.

Market Roundup

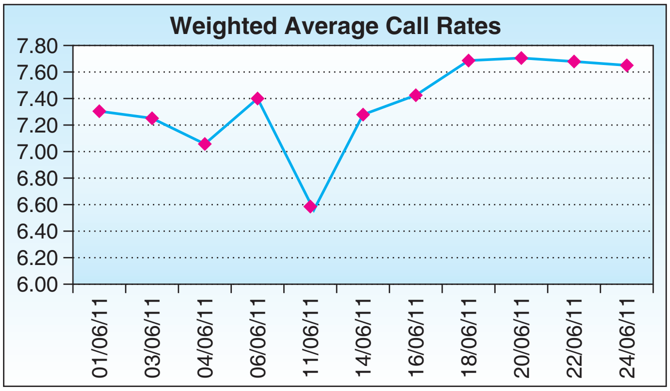


Source : Reserve Bank of India (RBI)



Source : Reserve Bank of India (RBI)

- The rupee lost against US currency in last week of June on late dollar demand amid substantial capital outflows
- In other 2 major currencies the rupee traded is range bound
- For a second successive week rupee lost.



Source : CCIL Newsletters, June 2011

- Call rates remained largely range bound
- Call rates hovered between 6.59 and 7.71
- Towards month end slight easing of liquidity is seen

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Editor : Dr. R. Bhaskaran.

INDIAN INSTITUTE OF BANKING & FINANCE
Kohinoor City, Commercial-II, Tower-I, 2nd Floor, Kirol Road, Kurla (W),
Mumbai - 400 070.
Tel. : 91-22-2503 9604 / 9746 / 9907 ● Fax : 91-22-2503 7332
Telegram : INSTIEXAM ● E-mail : iibgen@bom5.vsnl.net.in
Website : www.iibf.org.in