INDIAN Economy & Policy WATCH
Week ended January 28, 2006 Issue No: 44 FY2006

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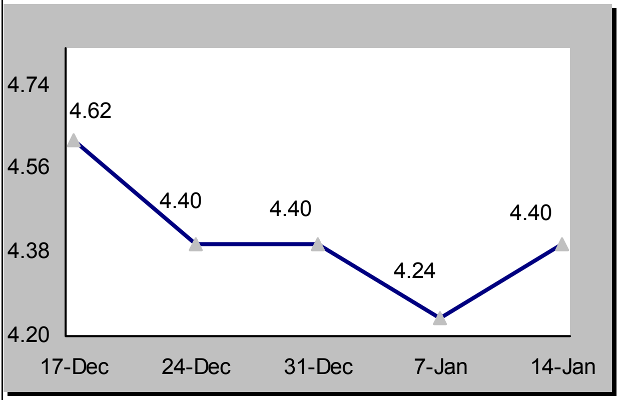
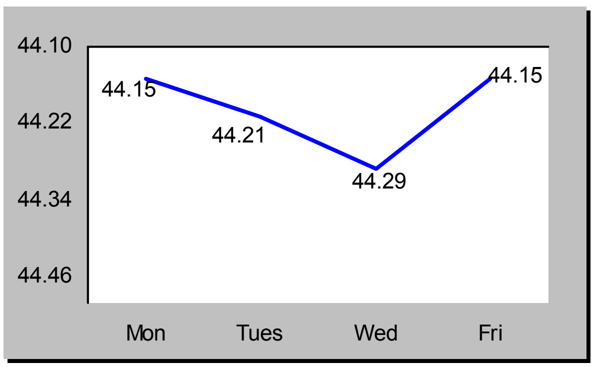
ECONOMIC INDICATORS



Inflation

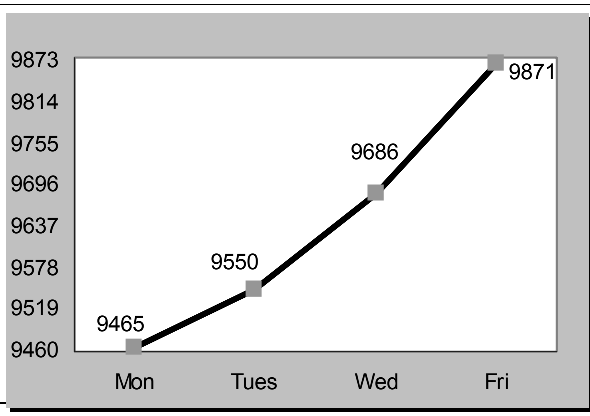
The annual wholesale price index-based inflation rose 4.4 percent during the week ended January 14, higher than the previous week's annual rise of 4.24 percent. The increase in the year-on-year inflation rate was largely on account of a rise in prices of manufactured products, according to data released here today by the Ministry of Commerce and Industry.

On a disaggregated basis, the Primary articles group index declined 0.2 percent to 194.4 points during the latest reported week. The Fuel, Power, Light and Lubricants' group index fell 0.1 percent to 311 points. The Manufactured Products' group index rose 0.1 percent to 172.4 points.



Rs v/s US $

The rupee stood at 44.15 per dollar from 44.24 per dollar over the week. Rallying stocks and surprise interest rate hike bolstered market sentiment but the dollar's gain overseas and firm oil prices limited rupee's upside.



BSE Sensex

The markets started on a bearish note this week but later rallied on the bourses backed by firm global markets. The traders preferred to buy on the bourses ahead of expiry of the January 2006 derivative contracts on January 25.

The BSE Sensex garnered 350 points this week as compared to last week`s gain of 146 points. The Sensex shed 56 points on Monday while gained 85 points on Tuesday. It witnessed a hefty gain of 136 points on Wednesday and gained a whopping 185 points on Friday. The markets were closed on Thursday on account of Republic Day.

Economy & its sectors

RBI raises repo rates; loans may turn dearer

Loan products across the board could cost more with the RBI switching on to a high interest regime to contain a swell in prices. Corporate and housing loans, which do not carry fixed interest rates, could be dearer by 0.25-0.30 percentage points in the near future. Bankers said deposit rates could also go up by 0.25 percentage points in line with the hike in lending rates.

Setting the measures to achieve price stability, the Reserve Bank of India on Tuesday hiked the reverse repo (price at which RBI absorbs excess bank funds) from 5 to 5.25 percent and the repo rate (the price at which RBI lends money to banks) from 6 to 6.25 percent.

The RBI had marked up the reverse repo by 0.25 percentage point to 5 percent in April 2005.

The Mid-term Review of Annual Policy Statement, 2005-06, released here, says, "Given the outlook for inflation primarily in the context of the oil economy in India, it may be difficult to contain the inflation in the range of 5-5.5 percent projected earlier without an appropriate policy response."

But the RBI has upped GDP growth estimates for the current year from 7 percent to 7-7.50 percent while leaving unchanged the bank rate at 6 percent and the Cash Reserve Ratio at 5 percent.

Addressing newspersons, the RBI Governor, Dr Y.V. Reddy, said monetary policies across the globe were moving towards lesser accommodation and in some cases tightening.

"Oil imbalances have created more problems," he said.

Commenting on domestic developments, Dr Reddy said growth in the quarter ended September 30, has strengthened and the manufacturing sector has performed better than expected.

"Credit growth has been relatively broad-based," he said leading to a slight hardening of interest rates in the financial markets.

On a year-on-year basis, non-food credit growth at 31.5 percent as on September 30, was higher over 24.9 percent a year ago.

Surplus liquidity resulted in the reverse repo volumes tendered under the Liquidity Adjustment Facility rising from Rs 29,809 crore in March to Rs 34,832 crore in August before declining to Rs 21,128 crore in October.

On liquidity, Dr Reddy said, "Last year we had significant liquidity. In the last six months there has been a slight unwinding. But after that there has been no significant addition or reduction in liquidity. We have rupee liquidity in MSS and dollar liquidity in reserves."

On the introduction of intra-day short selling in government securities, Dr Reddy said there is need for consolidation of the G-Sec market as from April 2006 RBI will not participate in it.

The RBI has also allowed banks to increase their consolidated exposure to the capital market to 40 percent of their net worth from 20 percent with the earlier ceiling of 5 percent of total outstanding advances as on March 31 of the previous year being scrapped. Dr Reddy said the move would align the banks' risk taking capacity with their net worth. "We are not rigid on risk taking," he added.

RBI ascribes cash crunch to frictional liquidity

The cash crunch in the system is only a case of frictional liquidity and the central bank would intervene if the situation arises. This is the stance RBI has adopted in the quarterly review on the monetary policy.

Dr Y Venugopal Reddy, Governor, RBI, said that the central bank had adopted a flexible liquidity management system through instruments such as the Liquidity Adjustment Facility (LAF) and the Market Stabilisation Scheme (MSS).

Dr Reddy said that the tightness in the system was on account of frictional liquidity. "So far, it has been a case of frictional liquidity. Our concern is in terms of maintaining underlying liquidity through unwinding in the MSS and open market adjustments in LAF," he said.

Reddy said that reduction of the cash reserve ratio to 3 percent is a medium term objective and if there are concerns about the underlying liquidity conditions, then the medium term and the current objectives would achieve convergence.

According to the quarterly review of the credit policy, the net addition of liquidity by RBI as on January 20, 2006 was Rs 13,770 crore. During 2005-06 (up to January 18, 2006), the cash balances of the Central Government increased by Rs 11,864 crore. Thus, the total excess liquidity fell to an average level of Rs 94,585 crore in December, 2005 and declined further to Rs 61,317 crore by January 20, 2006. "Redemptions of the order of Rs 10,028 crore are due under the MSS during the remaining part of the current financial year and, if there are no fresh issues, the outstanding balances under the MSS would amount to about Rs 30,000 crore at the end of March, 2006," said the monetary policy statement.

New instruments can help raise Rs 1 lakh crore more

The new hybrid instruments will enable banks to raise additional Rs 1,00,000 crore, said Dr YV Reddy, Governor, Reserve Bank of India, said on Tuesday.

The guidelines are likely to be released within three to four days and would include preferential shares, Dr Reddy said. These instruments will allow public sector banks to raise funds to meet the growing credit requirements, while maintaining Government holding at 51 percent.

RBI move to hike repo rates pre-emptive: Chidambaram

The finance Minister, P Chidambaram, on Tuesday termed the Reserve Bank of India's (RBI) move to hike the reverse repo and repo rates as "pre-emptive" action to keep inflation under check and indicated that the rate hikes could be reversed as and when the external situation showed improvement.

"The RBI has hiked the repo and reverse repo rate by 25 basis points. This, I believe, is a pre-emptive action. The RBI wishes to be slightly ahead of the curve. As soon as the external situation stabilises and becomes clear, it could be reversed," Chidambaram told newspersons reacting to the RBI's third-quarter review of the Annual Statement on Monetary Policy for the year 2005-06.

He also underscored the need for the Government and the RBI to keep a watch on what would happen in the US market on January 31 and in March. "After watching the situation during this period, the RBI would take further steps," he said.

The Finance Minister pointed out that the RBI has not changed its bank rate or cash reserve ratio and this was a clear indication that, in the medium to long term, the RBI wishes to keep rates stable (interest rates).

Stating that the Government as well as the RBI had a role in keeping inflation below 5 percent, Chidambaram said that given the strong credit expansion and growth in consumer demand, "we don't wish to stoke inflationary expectations".

He also said that the RBI has promised to provide adequate liquidity to banks and that the central bank has enough instruments at its disposal for this purpose.

Asked about the government's borrowing programme, he said that the government borrowings depended on the resource position and added that he does not see any change in the government borrowing programme as of now.

Govt targeting $10-b FDI in '06-07: Kamal Nath

The Government is targeting an overall foreign direct investment (FDI) inflow of $10 billion during the next fiscal and expects around $7.5 billion in the current financial year, the Minister for Commerce and Industry, Kamal Nath,said on Thursday. He was speaking to the Indian media at Davos in Switzerland.

The actual FDI inflow till October this fiscal stood $2.59 billion. Elaborating on the new FDI policy that was announced on Tuesday, he said it was solely for the purpose of employment generation.

There will be no employment displacement or replacement, but there would be creation of 100,000 jobs. It would essentially create employment for people in the 22-24 age group, especially school dropouts, he said.

The 51 percent FDI had been approved in basically multi-product, single brands, and this would address the critical employment issues facing the country without displacing the mom and pop kirana stores. However, he did not put a number to the FDI inflow expected from partially opening up of the retail sector.

While Kamal Nath said he himself was not averse to 100 percent FDI in retail, the new policy had put it at 51 percent and the detailed guidelines were still to be worked out. He also pointed out that in India, FDI is more domestic market driven, hence single brand retailers would like to come into the country.

Later in the day, at the World Economic Forum session, Kamal Nath said the hub of world economic activity was shifting from the Atlantic rim to the Indian Ocean and India's technological skills, along with its attractiveness as a manufacturing centre, are fast making it the hub of not only information technology (IT)-enabled services but also manufacturing.

India was witnessing a consistent industrial growth of 12 percent for the past few years and the trend was accelerating.

Speaking about the future trends, Kamal Nath said the way forward for India was to capture the potential market through value adding in different fields, especially engineering goods, pharmaceuticals, chemicals, biotechnology and even sectors such as fashion, lifestyle products and leather goods.

He pointed out that India was already the leader in the world's diamond market and that cut and polished diamonds from the country accounted for approximately 85 percent of the global markets in volume terms.

Kamal Nath said the population in the developed world was aging, hence the workforce, which would comprise not just labour but skilled and technologically qualified professionals as well, would come from the developing countries. He added that

India's unique combination of IT, biotech and pharma manufacturing base would mean that it would not only be a business process outsourcing destination but would climb up the value chain to become a knowledge process outsourcing and an engineering process outsourcing destination.

The Minister also referred to the profound changes that had taken place in the consumer base in India.

External sector

FOREIGN EXCHANGE RESERVES

Foreign currency reserves dip by US$ 66 million

India's total foreign exchange reserves rose by US$ 1,714 million to US$ 139.444 million for the week ended January 21, mostly due to a fall of US$ 62 million in foreign currency assets (including the effect of appreciation/depreciation of non-US currencies) to US$ 133.246 million according to the RBI's weekly statistical supplement released on January 27.

Gold reserves and SDRs were static at US$ 5,274 million and US$ 5 million respectively.

The country's reserve tranche position at the IMF fell by US$ 4 million to US$ 919 million.

Money & Banking

INTEREST RATES & DEBT MARKET

Gilts prices fall on rate hike

Gilts market readjusted the yield curve to the RBI's surprise rate hikes in the monetary policy and yields moved drastically higher. Market participants also pared position as liquidity conditions continued to remain precarious.

While factoring the unprecedented LAF rates increase coupled with tight liquidity, the entire curve shifted higher but flattened, as losses were more pronounced at the short-end of the curve compared to the medium and long segments.

Belying market expectations, the RBI increased the reverse repo rate and repo rate by 25 bps to 5.5% and 6.5% respectively, as a pre-emptive measure against inflationary pressures. It kept the bank rate and CRR unchanged and raised its economic growth forecast to 7.5-8%.

The comfort offered by the FM P. Chidambaram's assurance over possibility of a reversal of LAF rate hikes was short-lived amidst bearish interest rate outlook.

The yield on benchmark 8.07% 2017 from its previous week's close of 7.21% saw a drastic rise to 7.48% on surprise sprung by the RBI in the monetary policy.

Call rates higher on rate hike

Call rates closed at 7.00-7.25% from 6.40-6.60% in the previous week realigning themselves to the rise in the LAF rates coupled with a shortfall in the cash surpluses in the banking system.

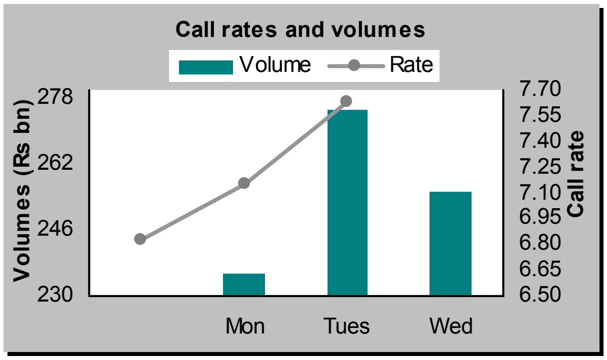
As against the market expectations, the RBI hiked the reverse repo rate by 25 bps to 5.5% and the repo rate by 25 bps to 6.5%. However, it kept the bank rate and CRR unchanged.

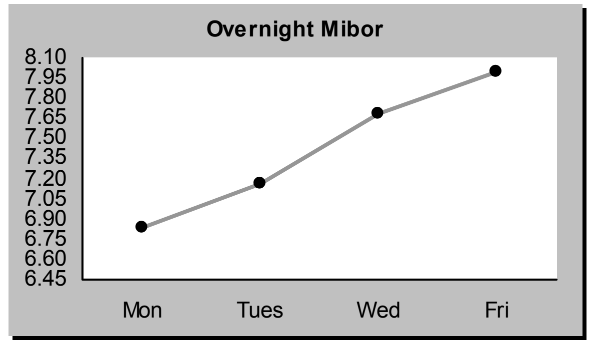
Rupee steady after rate hike

The rupee stood at 44.15 per dollar from 44.24 per dollar over the week. Rallying stocks and surprise interest rate hike bolstered market sentiment but the dollar's gain overseas and firm oil prices limited rupee's upside.

The rupee started the week under pressure as rising fears of global risk aversion lingered over the market. However, stock markets across the globe rallied and oil prices came off highs. FII inflows again poured in (SEBI - $119.1 million) and RBI's LAF rate hike by 25 bps, caught the market by surprise providing an additional boost for the rupee.

Meanwhile, demand from oil firms early on and the dollar's rebound against the majors mid-week, kept rupee's upside under check.





Stock Markets

Weekly Wrap : Sensex sniffs 10,000

The markets started on a bearish note this week but later rallied on the bourses backed by firm global markets. The traders preferred to buy on the bourses ahead of expiry of the January 2006 derivative contracts on January 25.

The BSE Sensex garnered 350 points this week as compared to last week`s gain of 146 points. The Sensex shed 56 points on Monday while gained 85 points on Tuesday. It witnessed a hefty gain of 136 points on Wednesday and gained a whopping 185 points on Friday. The markets were closed on Thursday on account of Republic Day.

FIIs invested in equities worth $119.1mn this week (From Monday to Thursday) and mutual funds offloaded to the tune of Rs 341.14 crore from (Monday to Wednesday)

Inflation rose by 0.16 per cent to 4.4 per cent for the week ended January 14 against 4.24 per cent during the first week of this calendar year.

Steel stocks rallied on Friday on a major development in the steel sector. L.N. Mittal launched a Euro 18.6-billion ($22.7 billion) takeover bid for Arcelor. The largest steel producer of the world, on Friday offered a price of euro 28.21 a share of France`s Arcelor. The shareholders of Arcelor were offered a premium of 27 per cent over the stock`s closing price on the (Euronext) Paris Stock Exchange on Thursday.

On the macroeconomic front, the RBI reviewed the monetary and credit policy on Tuesday. The apex bank hiked the reverse repo rate by 25 basis points and kept the bank rate unchanged at 6.0 per cent. The RBI has, however, increased the fixed reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 5.25 per cent to 5.50 per cent, with immediate effect.

Corporate results for the week:

Tata Steel Ltd posted 15.3 per cent decline in net profit to Rs 753.74 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 890.51 crore for the corresponding quarter previous year. Total Income (net of excise) has decreased by 1.14 per cent to Rs 3722.08 crore for Q3 FY 05-06 from Rs 3765.09 crore in Q3 FY 04-05.

Reliance Capital Ltd posted 166.52 per cent increase in net profit to Rs 64.98 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 24.38 crore for the quarter ended December 31, 2004 (Q3 FY 04-05). Total Income has increased by 15.57 per cent to Rs 82.82 crore for Q3 FY 05-06 from Rs 71.66 crore in Q3 FY 04-05.

State Bank of India posted 1.44 per cent increase in net profit to Rs 1115.19 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 1099.35 crore for the quarter ended December 31, 2004 (Q3 FY 04-05). Total Income has increased by 11.02 per cent to Rs 11398.62 crore for Q3 FY 05-06 from Rs 10267.07 crore in Q3 FY 04-05.

Shipping Corporation of India Ltd posted 4.31 per cent decline in net profit to Rs 268.05 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 280.15 crore for the quarter ended December 31, 2004 (Q3 FY 04-05). Total Income has decreased by 6.14 per cent to Rs 931.95 crore for Q3 FY 05-06 from Rs 992.92 crore in Q3 FY 04-05.

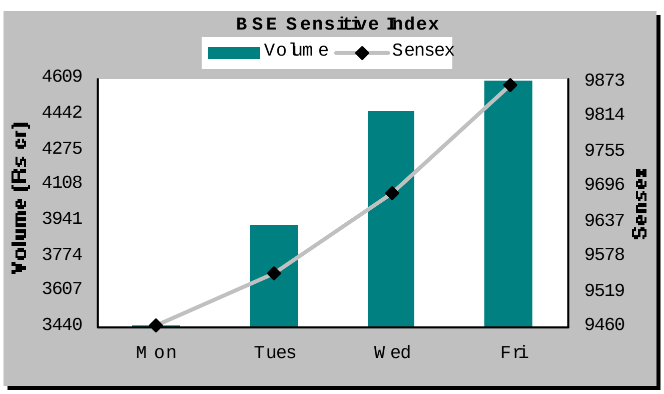
Steel Authority of India Ltd posted 54.7 per cent decline in net profit to Rs 684.59 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 1514.24 crore for the corresponding quarter previous year. Total Income (net of excise) has decreased by 18.3 per cent to Rs 6443.39 crore for Q3 FY 05-06 from Rs 7889.20 crore in Q3 FY 04-05 .

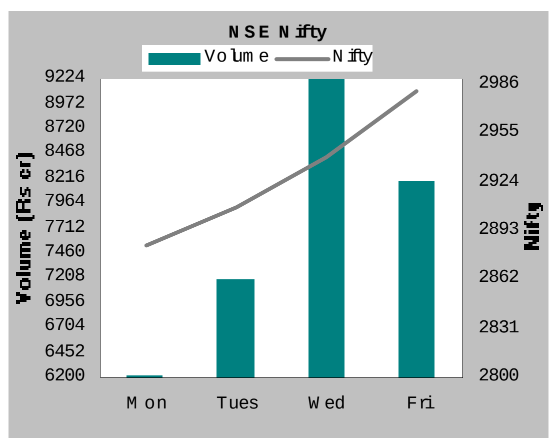
National Aluminium Company Ltd posted 28.41 per cent increase in net profit after tax to Rs 393.03 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 306.07 crore for the quarter ended December 31, 2004 (Q3 FY 04-05). Total Income (net of excise) has increased by 21.97 per cent to Rs 1379.36 crore for Q3 FY 05-06 from Rs 1130.83 crore in Q3 FY 04-05.

Grasim Industries Ltd posted 25.4 per cent decline in net profit to Rs 161.87 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 217.08 crore for the corresponding quarter previous year. Total Income has increased by 4.12 per cent to Rs 1663.44 crore for Q3 FY 05-06 from Rs 1597.52 crore in Q3 FY 04-05.

Cipla Ltd posted 39.5 per cent rise in net profit after tax to Rs 175.31 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 125.67 crore for the corresponding quarter previous year. Total Income (net of excise) has increased by 34.1 per cent to Rs 855.07 crore for Q3 FY 05-06 from Rs 637.32 crore in Q3 FY 04-05 .

Dr Reddy`s Laboratories Ltd posted 1150 per cent surge in net profit at Rs 54.25 crore for the quarter ended December 31, 2005 (Q3 FY 05-06) as compared to Rs 4.34 crore for the corresponding quarter previouys year. Total Income (net of excise) has increased by 38.7 per cent to Rs 532.22 crore for Q3 FY 05-06 from Rs 383.66 crore in Q3 FY 04-05.





Inflation

Inflation up on dearer manufactured products

The annual wholesale price index-based inflation rose 4.4 percent during the week ended January 14, higher than the previous week's annual rise of 4.24 percent. The increase in the year-on-year inflation rate was largely on account of a rise in prices of manufactured products, according to data released here today by the Ministry of Commerce and Industry.

The WPI-based inflation rate was 5.48 percent during the corresponding week of last year.

On a disaggregated basis, the Primary articles group index declined 0.2 percent to 194.4 points during the latest reported week. The Fuel, Power, Light and Lubricants' group index fell 0.1 percent to 311 points. The Manufactured Products' group index rose 0.1 percent to 172.4 points.

Among the Primary Articles' Group, the index for food articles group declined 0.2 percent to 196.2 points. Prices of arhar declined by 4 percent, fish-marine by 2 percent and food and vegetables, barley and tea by one percent each. However, the prices of eggs, wheat and moong moved up by one percent each. In case of the Fuel, Power Light and Lubricants group, the aviation turbine fuel registered a fall in prices by 5 percent.

Among the Manufactured Products' group, the index for food products group rose 0.2 percent to 178.1 points due to higher prices of sugar, groundnut oil and gingelly oil (1 percent each). The Textiles' group index was up 0.1 percent to 129.6 points from 129.5 for the previous week due to higher prices of hessian cloth and hessian sacking bags (1 percent each).

The index for Chemicals and Chemical Products moved up 0.1 percent to 189.1 points from 188.9, while that of non- metallic mineral products group rose 0.5 percent to 170.6 points from 169.7 for the preceding week due to higher prices of cement (1 percent).

The Base Metal Alloys and Metal Products' group index rose 0.2 percent to 221.7 points, from 221.2 during the previous week, while machinery and machine tools group index declined by 0.1 percent to 146.4 points from 146.5 for the previous week.

Prices of zinc ingots were up 24 percent while lead ingots soared by 16 percent. However, prices of air-conditioners declined by 19 percent while those of bottles and hydrogenated vanaspati fell by 3 percent each.

The inflation rate has been revised to 4.27 percent for the week ended November 11, 2005 against the provisional estimate of 4.32 percent. The WPI has been revised to 198 points against the provisional 198.1 points.

Inflation outlook uncertain on rising oil prices: RBI

As global crude oil price increases are here to stay the outlook for inflation remains uncertain, said the Reserve Bank of India in its Macroeconomic and Monetary Developments for the third quarter.

In India, inflation and inflationary expectations remained well contained during the quarter ended December 2005.

Despite hikes in petrol, diesel and electricity prices in June 2005, a series of monetary and fiscal measures by the RBI helped in reigning in inflation and inflationary expectation during the fiscal, the central bank said.

"A hike in the reverse repo rate by 25 basis points (bps) to 5.25 percent in October 2005 especially in the context of developments in the oil economy, in addition to 50 bps increase in Cash Reserve Ratio during September-October 2004 and an increase of 25 bps each in reverse repo rate in October 2004 and April 2005 indicated the resolve of the monetary policy to contain inflation in the projected rage of 5-5.5 percent," it said.

Inflation outcome in 2005-06 has been dominated by the price movements of commodities such as vegetables, iron and steel and petroleum products.

These commodities with a combined weight of about 12 percent in the Wholesale Price Inflation basket contributed to more than half of the headline inflation rate of 4.4 percent on December 31, 2005. Mineral oils inflation alone accounted for one-third of inflation.

The RBI also said domestic petroleum products prices have lagged the increase in international crude oil prices, with the burden being shared by the oil companies and the Union Government.

The pass through of higher international oil prices has been restricted mainly to petrol and diesel.

Domestic prices of liquefied petroleum and kerosene oil have remained unchanged during the year so far.

The RBI said inflation pressures, which had increased in the third quarter of calendar year 2005, moderated somewhat in a number of economies in the fourth quarter with some easing in energy prices.

It, however, continues to be at elevated levels, above the targets of many central banks.

Although the second round effects of recent oil hikes have been muted so far and core inflation remains low, the prospect of a higher second round pass-through has prompted a number of central banks to tighten monetary policy during the recent months to contain inflation and inflationary expectations.

In India, equity and gold prices recorded sharp increases during the quarter ended December 2005. Corporate profitability remained strong and profits after tax increased by 41.3 percent in April-September 2005.

INDIAN Policy WATCH

January 28, 2006 Issue No: 44 FY2006

HIGHLIGHTS

- RBI raises reverse repo rate `to stabilise inflationary pressures' - Bank rate, CRR left unchanged
- Foreign, pvt banks staff can now blow the whistle - RBI issues norms for `Protected Disclosure Scheme'
- RBI gives nod for appointment of `Business Correspondents' - Banks can now offer loans, accept deposits thru agents
- Hotel, travel, tourism sectors - Govt plugs loophole in car imports under EPCG scheme
- 51% FDI in single brand retail cleared

C O N T E N T S

POLICY WATCH

POLICY WATCH

BANKING

RBI raises reverse repo rate `to stabilise inflationary pressures' - Bank rate, CRR left unchanged

Signalling a high interest rate regime, the Reserve Bank of India on Tuesday hiked the reverse repo rate (the rate at which the RBI absorbs excess bank funds) by 0.25 percentage points to 5.5 percent with immediate effect.

This is the third time in the current fiscal that the central bank has hiked the reverse repo rate.

The repo rate also been raised by 0.25 percentage points to 6.5 percent, as it is linked to the reverse repo.

The central bank has left unchanged other key rates such as the bank rate at 6 percent and the cash reserve ratio at 5 percent.

In view of the improved macro economic scenario, the RBI has placed its GDP growth estimates at 7.5-8 percent, up from 7-7.5 percent earlier.

Explaining the rationale behind hiking the reverse repo rate in its third quarter review of the Monetary Policy on Tuesday, Dr Y.V. Reddy, RBI Governor, said it was a measured policy response to stabilise inflationary pressures (particularly in view of the risk posed by rising oil price and rapid credit growth), while the economy is set to achieve an 8-percent growth rate.

When asked why the rate hike when all indicators were positive, in the RBI's own assessment, Dr Reddy said, "We have acted now. We have to make a judgment between the downside effect of acting now and the ineffectiveness of acting later."

Though inflation has been contained at 4.2 percent, high oil price, step-up in credit growth, movement in asset prices and growth in money supply pose further risks of potential inflationary pressures, the RBI said in its review.

"International crude prices remain a potent threat to overall price stability," it said.

While the prospects for growth have improved in recent months, it is critical to ensure that these gains are not dissipated either by inflationary pressures or by any threat to financial stability, the review said.

Defending the rate hike, Dr Rakesh Mohan, Deputy Governor, RBI, said that in view of the emerging global and domestic scenario and the related risks, "we need to prevent potential possible corrosive effect on growth."

Responding to a query on whether the RBI doubted the asset quality of banks, Dr Reddy said, "We are not saying something is wrong. But we want to make sure that nothing goes wrong ... We are telling the banks to be more cautious."

According to the RBI, between September and December, several banks raised both the lending and the deposit rates.

Foreign, pvt banks staff can now blow the whistle - RBI issues norms for `Protected Disclosure Scheme'

Foreign and private banks operating in the country now have more reason to be on their guard. Their employees can blow the whistle in case of irregularities such as corruption, misuse of office, fraud, or failure to comply with RBI rules.

In case of a genuine complaint, the Reserve Bank of India will crack down on the guilty but will not reveal the name of the complainant. However, anonymous complaints will not be entertained.

The RBI on Wednesday issued guidelines for the `Protected Disclosure Scheme' for private and foreign banks. The disclosure scheme is already in force in the case of public sector banks and the RBI itself.

These guidelines come in the wake of the recent IPO scam in banks that had violated the `know your customer' norms with regard to opening accounts.he seven banks penalised included three private banks and two foreign banks.

The modus operandi involved the opening of demat accounts with banks under fictitious names and transferring funds to these accounts.

This was a violation of norms as the banks concerned had not verified the credentials of the account holders.

They had also transferred account payee cheques to accounts other than those held under names mentioned on the cheque. In some cases, the accounts were over two years old, which means that the irregularity went on undetected for a long time.

The RBI hopes that the disclosure scheme would prompt more people, like employees of the bank, customers, stakeholders, or NGOs, to point out irregularities without fear.

As per the procedure outlined by the apex bank, the complaint should be sent in a closed envelope to the Department of Banking Supervision.

The name of the complainant should be attached with the complaint; in case of employees, the designation, department and institution and place of posting should be mentioned.

After verifying the identity of the complainant in the case of employees, the RBI may investigate the matter further or call for response from the Chairman or Chief Executive of the bank concerned.

The apex bank will recommend appropriate action including action against the official concerned, steps for redressing losses caused to the bank, and initiation of criminal proceedings.

On the other hand, if the RBI finds that the complaint is motivated, action can be taken against the complainant.

All private and foreign banks should frame a `Protected Disclosures Scheme' approved by their boards of directors in line with this broad framework.

RBI gives nod for appointment of `Business Correspondents' - Banks can now offer loans, accept deposits thru agents

Banks are now allowed to outsource lending and deposit-taking activities to enable them to reach rural and remote areas. In other words, banks can now collect deposits from public and deliver credit to borrowers through agents appointed by them.

The Reserve Bank of India has permitted banks to appoint NGOs, micro finance agencies, post offices and NBFCs (not accepting deposits) to act as banks' Business Correspondents.

To begin with, these outside agencies are allowed to disburse `small-value credit', collection of `small-value deposits', recovery of principal and interest and sale of mutual funds and pension products.

In a circular issued to banks on January 25, the RBI has permitted them to appoint business correspondents for undertaking such activities under a scheme.

Under the scheme, banks should enter into specific arrangements with business correspondents prescribing suitable limits on cash holding by business correspondents and also limits on individual customer payments and receipts.

The transactions done through business correspondents are accounted for and reflected in the bank's book of accounts by the end of the day or the next working day. Any agreements entered into by the correspondents with the customer shall specify that the bank is responsible to the customer for the acts of omission and commission of the correspondent, the circular said. "The activities undertaken by the business correspondents would be within the normal course of the bank's banking business, but conducted at places other than the bank premises," the circular said.

The business correspondents will be paid commission/fees as per RBI guidelines.

Banks should follow know-your customer norms while undertaking banking activities through the business correspondents, the RBI said in its circular.

The RBI has already allowed banks to engage NGOs, micro finance agencies and other self-help groups for identification of borrowers, processing of loan applications, helping recovery and such other support services.

TRADE

Hotel, travel, tourism sectors - Govt plugs loophole in car imports under EPCG scheme

The Government has tightened the import regime for motor cars, sports utility vehicles (SUVs) and all-purpose vehicles under the export promotion capital goods (EPCG) scheme by hotels, travel and tourism and golf tourism sectors.

The move comes in the wake of misuse of the EPCG scheme for import of cars by some segments of the travel and tourism industry.

The Directorate-General of Foreign Trade (DGFT) has now stipulated that import of motor cars, SUVs and all-purpose vehicles under the EPCG scheme would be allowed only to hotels, travel agents, tour operators or tour transport operators and companies owning or operating golf resorts whose total foreign exchange earning from these specific businesses in the current and preceding three licensing years is Rs 1.5 crore or more.

Moreover, the Government said the `duty saved' amount on all EPCG licences issued in a licensing year from import of motor cars, SUVs and all-purpose vehicles should not exceed 50 percent of the average foreign exchange earnings from the hotel, travel and tourism and golf tourism sectors in the preceding three licensing years.

FOREIGN DIRECT INVESTMENT

51% FDI in single brand retail cleared

As part of a big move to liberalise the foreign direct investment (FDI) regime, the Cabinet today approved new FDI norms for several sectors including retailing.

It has allowed up to 51 percent FDI in single brand retailing by foreign companies Reebok and Louis Vuitton. As of now, single brand retailers operate through the franchisee route and there is a strong view that FDI in this segment would not displace jobs or impact the local industry but help create employment.

The Cabinet has also revised the terms and conditions for FDI power trading, processing and warehousing of rubber and coffee, diamond and coal mining, airports and petroleum infrastructure like laying of pipelines. FDI up to 100 percent has been permitted under the Reserve Bank of India's automatic route.

Earlier a Group of Ministers (GoM) headed by the Agriculture Minister, Mr Sharad Pawar, had reviewed these norms.

The idea of opening up more sectors is to attract more foreign capital by reducing the levels of control in most sectors, officials said.

The Cabinet also approved doing away with multiple approvals for foreign investments from various agencies, particularly in banking and insurance.

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