**Second Quarter Review of Monetary Policy 2012-13**

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|  | **Policy Measures** | **Impact** |
| **1** | **Cash Reserve Ratio**  It has been decided to reduce the cash reserve ratio (CRR) of scheduled banks by 25 basis points from 4.5 per cent to 4.25 per cent of their net demand and time liabilities (NDTL) effective the fortnight beginning November 3, 2012.  As as result of this reduction in the CRR, around 175 billion of primary liquidity will be injected into the banking system.  **Repo Rate**  The policy repo rate under the liquidity adjustment facility (LAF) has been retained at 8.0 per cent.  **Reverse Repo Rate**  The reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, stands at 7.0 per cent.  **Marginal Standing Facility (MSF) Rate**  The Marginal Standing Facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, stands at 9.0 per cent. 12  **Bank Rate**  The Bank Rate stands at 9.0 per cent. | As result of this reduction in the CRR, around 175 billion of primary liquidity will be injected into the banking system.  The reduction in the CRR is intended to pre-empt a prospective tightening of liquidity conditions, thereby keeping liquidity comfortable to support growth. |
| **2** | Following the recommendations of Working Group’s ( Chairman Shri R Gandhi), it has been decided (i) to change the settlement cycle of the primary auction in Treasury Bills (T-Bills) from T+2 to T+1 (ii) to undertake reissuance/introduce fungibility of T-Bills/Cash Management Bills with identical maturity dates (iii) to standardise IRS contracts to facilitate centralised clearing and settlement of these contracts | This will promote liquidity in the secondary market, improve retail participation in the G-secs market, and will develop the market for interest rate derivatives. |
| **3** | As per Working Group (Chairperson: Smt. Rashmi Fauzdar), recommendations for implementation of an IT - based solution using a secured website of the Reserve Bank to update the export database on a real time basis to facilitate quicker follow-up/data generation/policy formulation, it has been decided to put in place the envisaged architecture by September 2013. | This will eliminate gaps/lacunae in the current export reporting and follow-up procedure and will ensure suitable re-engineering of the system.  This will facilitate monitoring and follow up of Export bills at RBI level. |
| **4** | loans up to `20 million to partnership firms, cooperatives and corporates directly engaged in agriculture and allied activities under partnership, rural cooperative and corporate categories will also be classified as direct finance to agriculture.  Bank loans to Housing Finance Companies (HFCs) for on-lending for housing up to `1 million per borrower, may be included under the priority sector, provided the interest rate charged to the ultimate borrower by the HFC does not exceed two percentage points above the lowest interest rate of the lending bank for housing loans. | This will address the concerns raised by banks on revised priority sector guidelines. |
| **5** | It has been decided to increase the provision for restructured standard accounts from the existing 2.0 per cent to 2.75% | The increase will hit the bottom line of banks. The additional provisioning will be Rs. 300 crore for SBI alone. The restructured standard advancews were Rs. 1,36,426 crore, 1,37,602 crore and Rs. 2,18,068 crore in 2010,2011 and 2012 resp. |
| **6** | Banks should strictly adhere to the instructions regarding sharing of information relating to credit, derivatives and unhedged foreign currency exposures among themselves and put in place an effective mechanism for information sharing by end-December 2012;  Any sanction of fresh loans/*ad hoc* loans/renewal of loans to new/existing borrowers with effect from January 1, 2013 should be done only after obtaining/sharing necessary information; and | This will ensure effective information sharing among banks. |
| **7** | Banks should put in place a proper mechanism to rigorously evaluate the risks arising out of unhedged foreign currency exposure of corporates and price them in the credit risk premium, and also consider stipulating a limit on the unhedged position of corporates on the basis of banks’ Board-approved policy. Banks should furnish compliance/action taken reports to the Reserve Bank before end-December 2012 after obtaining the approval of their Board of | Unhedged forex exposure of corporates is a source of risk to them as well as to the financing banks and the financial system. Large unhedged forex exposures have resulted in accounts becoming NPAs in some cases..This will evaluate risks arising out of unhedged foreign currency exposure of the corporates and price them in the credit risk premium while extending fund-based and non fund-based credit facilities |
| **8** | Other than working capital finance, banks are not permitted to finance purchase of gold in any form | The significant rise in imports of gold in recent years is a cause for concern as direct bank financing for purchase of gold in any form *viz.,* bullion/primary gold/jewellery/gold coin could lead to fuelling of demand for gold for speculative purposes. This measure will curb speculative transactions. |
| **9** | To permit domestic scheduled commercial banks (other than RRBs) to open offices performing purely administrative and controlling functions (Regional Offices and Zonal Offices) in Tier I centres subject to reporting | This will further increase operational flexibility of banks. |