

## Current Trends & Developments – Part-I

### Current Trends & Development

As per the Reserve Bank of India (RBI), India's banking sector has been sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. However, public sector banks have got a hit due to increased provisioning on the stressed assets, mainly belonging to big corporate, thus impacting the profitability adversely in the 3<sup>rd</sup> quarter of 2015-16.

Indian banking industry is expected to witness better growth prospects in 2016-17 as a sense of optimism stems from the Government's measures towards revitalizing the industrial growth in the country. In addition, RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. Moreover, the Government has been quite pro active in introducing the major reforms in the banking sector in the ensuing years including recapitalising the PSBs as also creating bigger banking entities to have a level playing field globally.

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers.

Ambitious programme of financial inclusion had been announced by the Prime Minister as a result of which, 192.1 million accounts had been opened under Pradhan Mantri Jan Dhan Yojna (PMJDY) As of November 11, 2015 and 165.1 million RuPay debit cards were issued. These new accounts have mustered deposits worth Rs. 26,819 crore.

Union Budget 2016 envisages enhanced support to farming as well as infrastructure sector for an overall growth of Indian economy.

Standard & Poor's estimates that credit growth in India's banking sector would improve to 12-13 per cent in FY 2016.

### UNION BUDGET : 2016-17

The Finance Minister presented the Union Budget 2016-17 which can be summed up as pragmatic, wide-ranging and inclusive giving priority to fiscal discipline. On the fiscal math, the deficit target has been set at -3.9 percent of GDP, deviating modestly from the roadmap's target of -3.6 percent.

Affirming that the economy is right on track, the Finance Minister has earmarked more money for health, literacy, roads and infrastructure with minor rebate for small taxpayers while focusing on rural economy with a promise to double the income of farmers in five years.

#### **ACHIEVEMENTS SO FAR:**

Growth of Economy accelerated to 7.6% in 2015-16.

CPI inflation has come down to 5.4%.

India hailed as a 'bright spot' amidst a slowing global economy by IMF.

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Robust growth achieved despite very unfavourable global conditions and two consecutive years shortfall in monsoon by 13%.

The Current Account deficit has declined from 18.4 billion US dollars in the first half of last year to 14.4 billion this year. It is projected to be 1.4% of GDP at the end of this year. Foreign exchange reserves touched highest ever level of about 350 billion US dollars.

Despite increased devolution to States by 55% as a result of the 14<sup>th</sup> Finance Commission award, plan expenditure increased at RE stage in 2015-16, in contrast to earlier years.

### **CHALLENGES IN 2016-17:**

The risks of further global slowdown and turbulence are mounting. This complicates the task of economic management for India. It has three serious implications for the economy

Firstly the economy must strengthen the firewalls against these risks by ensuring macro-economic stability and prudent fiscal management.

Secondly, since foreign markets are weak, the economy must rely on domestic demand and Indian markets to ensure that India's growth does not slow down.

Thirdly, the economy must continue with the pace of economic reforms and policy initiatives to change the lives of our people for the better.

Additional fiscal burden due to 7th Central Pay Commission recommendations and OROP.

### **ROADMAP & PRIORITIES:**

The Finance Minister has unveiled a Rs.19.78 lakh crore budget for the fiscal year 2016-17, which is 10.8% higher than Rs.17,65,436 crore, revised estimates for previous year.

#### **As per the Budget, the Government to focus on:**

Ensuring macro-economic stability and prudent fiscal management.

Boosting on domestic demand.

Continuing with the pace of economic reforms and policy initiatives to change the lives of our people for the better.

#### **Focus on Vulnerable sections through:**

Pradhan Mantri Fasal Bima Yojana.

New health insurance scheme to protect against hospitalisation expenditure.

Facility of cooking gas connection for BPL families.

### **HIGHLIGHTS OF THE BUDGET**

#### **AGRICULTURE AND FARMERS' WELFARE:**

Allocation for Agriculture and Farmers' welfare is Rs.35,984 crore.

'Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode. 28.5 lakh hectares will be brought under irrigation.

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Implementation of 89 irrigation projects under Accelerated Irrigation Benefits Programme (AIBP), will be fast tracked.

A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about Rs. 20,000 crore.

Programme for sustainable management of ground water resources with an estimated cost of Rs. 6,000 cr. will be implemented through multilateral funding. 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for production of organic manure will be taken up under MGNREGA.

Soil Health Card scheme will cover all 14 crore farm holdings by March 2017.

2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities during the next three years.

Promote organic farming through 'Parmparagat Krishi Vikas Yojana' and 'Organic Value Chain Development in North East Region'.

Unified Agricultural Marketing e-Platform to provide a common e-market platform for wholesale markets.

Allocation under Pradhan Mantri Gram Sadak Yojana increased to Rs.19,000 crore. It will connect remaining 65,000 eligible habitations by 2019.

To reduce the burden of loan repayment on farmers, a provision of Rs.15,000 crore has been made in the BE 2016-17 towards interest subvention.

Allocation under Prime Minister Fasal Bima Yojana Rs.5,500 crore.

Rs. 850 crore for four dairying projects - 'Pashudhan Sanjivani', 'Nakul Swasthya Patra', 'E-Pashudhan Haat' and National Genomic Centre for indigenous breeds.

### **RURAL SECTOR:**

Allocation for rural sector – Rs. 87,765 crore.

Rs. 2.87 lakh crore will be given as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14<sup>th</sup> Finance Commission.

Every block under drought and rural distress will be taken up as an intensive Block under the Deen Dayal Antyodaya Mission.

A sum of Rs. 38,500 crore allocated for MGNREGS.

300 Rurban Clusters will be developed under the Shyama Prasad Mukherjee Rurban Mission.

100% village electrification by 1<sup>st</sup> May, 2018

National Land Record Modernisation Programme has been revamped.

New scheme Rashtriya Gram Swaraj Abhiyan proposed with allocation of Rs.655 crore.

### **SOCIAL SECTOR INCLUDING HEALTH CARE:**

Allocation for social sector including education and health care Rs.1,51,581 crore.

Rs.2,000 crore allocated for initial cost of providing LPG connections to BPL

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families.

New health protection scheme will provide health cover up to Rs. 1 lakh per family. For senior citizens an additional top-up package up to Rs.30,000 will be provided.

3,000 Stores under Prime Minister's Jan Aushadhi Yojana will be opened during 2016-17.

'National Dialysis Services Programme' to be started under National Health Mission through PPP mode.

'Stand Up India Scheme' to facilitate at least two projects per bank branch. This will benefit at least 2.5 lakh entrepreneurs.

Allocation of Rs.100 crore each for celebrating the Birth Centenary of Pandit Deen Dayal Upadhyay and the 350<sup>th</sup> Birth Anniversary of Guru Gobind Singh

### **EDUCATION, SKILLS AND JOB CREATION:**

62 new Navodaya Vidyalayas will be opened.

Sarva Shiksha Abhiyan to increase focus on quality of education.

Regulatory architecture to be provided to 10 public and 10 private institutions to emerge as world-class Teaching and Research Institutions.

Higher Education Financing Agency to be set-up with initial capital base of Rs.1,000 Crores.

Digital Depository for School Leaving Certificates, College Degrees, Academic Awards and Mark sheets to be set-up.

### **UNION BUDGET : 2016-17**

#### **SKILL DEVELOPMENT:**

Allocation for skill development- Rs.1804. crore.

1500 Multi Skill Training Institutes to be set-up.

National Board for Skill Development Certification to be setup in partnership with the industry and academia.

Entrepreneurship Education and Training through Massive Open Online Courses.

#### **JOB CREATION:**

Gol will pay contribution of 8.33% for of all new employees enrolling in EPFO for the first three years of their employment.

Budget provision of Rs.1000 crore has been made for this scheme.

Deduction under Section 80JJAA of the Income Tax Act will be available to all assesses who are subject to statutory audit under the Act.

100 Model Career Centres to operational by the end of 2016-17 under National Career Service.

Model Shops and Establishments Bill to be circulated to States.

**INFRASTRUCTURE AND INVESTMENT:**

Total investment in the road sector, including PMGSY allocation, would be Rs. 97,000 crore during 2016-17.

Approval of nearly 10,000 kms of National Highways in 2016-17.

Allocation of Rs.55,000 crore in the Budget for Roads.

Additional Rs.15,000 cr. to be raised by NHAI through bonds.

Total outlay for infrastructure fixed around Rs. 2,21,246 crore.

Amendments to be made in Motor Vehicles Act to open up the road transport sector in the passenger segment.

Action plan for revival of unserved and underserved airports to be drawn up in partnership with State Governments.

Comprehensive plan, spanning next 15 to 20 years, to augment the investment in nuclear power generation to be drawn up.

Steps to re-vitalise PPPs:

Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17.

Guidelines for renegotiation of PPP Concession Agreements will be issued.

New credit rating system for infrastructure projects to be introduced.

100% FDI to be allowed through FIPB route in marketing of food products produced and manufactured in India.

**FINANCIAL SECTOR REFORMS:**

A comprehensive Code on Resolution of Financial Firms to be introduced.

Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.

A Financial Data Management Centre to be set up.

RBI to facilitate retail participation in Government securities.

New derivative products will be developed by SEBI in the Commodity Derivatives market.

Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in Securitization Receipts.

Comprehensive Central Legislation to be brought to deal with the menace of illicit deposit taking schemes.

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Increasing members and benches of the Securities Appellate Tribunal.

Allocation of Rs.25,000 crore towards Recapitalisation of Public Sector Banks.

Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to Rs.1,80,000 crore.

General Insurance Companies owned by the Government to be listed in the stock exchanges.

### **GOVERNANCE AND EASE OF DOING BUSINESS:**

A Task Force has been constituted for rationalisation of human resources in various Ministries.

Comprehensive review and rationalisation of Autonomous Bodies.

Bill for Targeted Delivery of Financial and Other Subsidies, Benefits and Services by using the *Aadhar* framework.

To introduce DBT on pilot basis for fertilizer.

Automation facilities will be provided in 3 lakh fair price shops by March 2017.

Amendments in Companies Act to improve enabling environment for start-ups.

Price Stabilisation Fund with a corpus of Rs.900 crore to help maintain stable prices of Pulses.

“**Ek Bharat Shreshtha Bharat**” programme will be launched to link States and Districts in an annual programme that connects people through exchanges in areas of language, trade, culture, travel and tourism.

### **FISCAL DISCIPLINE:**

Fiscal deficit in RE 2015-16 and BE 2016-17 retained at 3.9% and 3.5%.

Revenue Deficit target from 2.8% to 2.5% in RE 2015-16.

Total expenditure projected at Rs. 19.78 lakh crore.

Plan expenditure pegged at Rs. 5.50 lakh crore under Plan, indicating an increase of 15.3%.

Non-Plan expenditure kept at Rs. 14.28 lakh crores.

Special emphasis to sectors such as agriculture, irrigation, social sector including health, women and child development, welfare of Scheduled Castes and Scheduled Tribes, minorities and infrastructure.

Mobilisation of additional finances to the extent of Rs. 31,300

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crore by NHA, PFC, REC, IREDA, NABARD and Inland Water Authority by raising Bonds.

Plan / Non-Plan classification to be done away with from 2017-18.

Every new scheme sanctioned will have a sunset date and outcome review.

Rationalised and restructured more than 1500 Central Plan Schemes into about 300 Central Sector and 30 Centrally Sponsored Schemes.

Committee to review the implementation of the FRBM Act.

Raise the ceiling of tax rebate under section 87A from Rs.2000 to Rs.5000 to lessen tax burden on individuals with income upto Rs.5 lakhs.

Increase the limit of deduction of rent paid under section 80GG from Rs.24000 per annum to Rs.60000, to provide relief to those who live in rented houses.

### **BOOST EMPLOYMENT AND GROWTH:**

Increase the turnover limit under Presumptive taxation scheme under section 44AD of the Income Tax Act to Rs. 2 crores to bring big relief to a large number of assesses in the MSME category.

Extend the presumptive taxation scheme with profit deemed to be 50% to professionals with gross receipts up to Rs.50 lac.

Accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from 1.4.2017

Benefit of section 10AA to new SEZ units will be available to those units which commence activity before 31-3-2020.

The weighted deduction under section 35CCD for skill development will continue up to 1-4-2020.

New manufacturing companies incorporated on or after 1-3-2016 to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.

Lower the corporate tax rate for the next financial year for relatively small enterprises i.e., companies with turnover not exceeding Rs.5 crore (in the financial year ending March 2015), to 29% plus surcharge and cess.

100% deduction of profits for 3 out of 5 years for startups

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setup during April, 2016 to March, 2019. MAT will apply in such cases.

10% rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident.

Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three to two years.

Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.

Determination of residency of foreign company on the basis of Place of Effective Management (POEM) is proposed to be deferred by one year.

Commitment to implement General Anti Avoidance Rules (GAAR) from 1-4-2017.

Exemption of service tax on services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empanelled by Ministry of Skill Development & Entrepreneurship.

Exemption of Service tax on general insurance services provided under 'Niramaya' Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability.

### **MOVING TOWARDS A PENSIONED SOCIETY:**

Withdrawal up to 40% of the corpus at the time of retirement to be tax exempt in the case of National Pension Scheme (NPS). Annuity fund which goes to legal heir will not be taxable.

In case of superannuation funds and recognized provident funds, including EPF, the same norm of 40% of corpus to be tax free will apply in respect of corpus created out of contributions made on or from 1.4.2016.

Limit for contribution of employer in recognized Provident and Superannuation Fund of Rs.1.5 lakh per annum for taking tax benefit. Exemption from service tax for Annuity services provided by NPS and Services provided by EPFO to employees.

Reduce service tax on Single premium Annuity (Insurance)



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Policies from 3.5% to 1.4% of premium paid in certain cases.

### **PROMOTING AFFORDABLE HOUSING:**

100% deduction for profits to an undertaking in housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply. Deduction for additional interest of Rs. 50,000 per annum for loans up to Rs. 35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed Rs.50 lakh. Exemption from service tax on construction of affordable houses up to 60 square metres under any scheme of the Central or State Government including PPP Schemes. Extend excise duty exemption, presently available to Concrete Mix manufactured at site for use in construction work to Ready Mix Concrete.

### **RESOURCE MOBILIZATION FOR AGRICULTURE, RURAL ECONOMY AND CLEAN ENVIRONMENT:**

Additional tax at the rate of 10% of gross amount of dividend will be payable by the recipients receiving dividend in excess of Rs.10 lakh per annum

Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above of Rs.1 crore.

Tax to be deducted at source at the rate of 1% on purchase of luxury cars exceeding value of Rs. 10 lakh and purchase of goods and services in cash exceeding Rs. 2 lakh.

Securities Transaction tax in case of 'Options' is proposed to be increased from .017% to .05%.

Equalization levy of 6% of gross amount for payment made to non-residents exceeding Rs.1 lakh a year in case of B2B transactions.

Krishi Kalyan Cess, @ 0.5% on all taxable services, w.e.f. 1st June 2016. Proceeds would be exclusively used for financing initiatives for improvement of agriculture and welfare of farmers. Input tax credit of this cess will be available for payment of this cess.

Infrastructure cess, of 1% on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs. No credit of this

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cess will be available nor credit of any other tax or duty be utilized for paying this cess.

Excise duty of '1% without input tax credit or 12.5% with input tax credit' on articles of jewellery [excluding silver jewellery, other than studded with diamonds and some other precious stones], with a higher exemption and eligibility limits of Rs. 6 crores and Rs. 12 crores respectively.

Excise on readymade garments with retail price of Rs. 1000 or more raised to 2% without input tax credit or 12.5% with input tax credit.

'Clean Energy Cess' levied on coal, lignite and peat renamed to 'Clean Environment Cess' and rate increased from Rs.200 per tonne to Rs.400 per tonne.

Excise duties on various tobacco products other than beedi raised by about 10 to 15%.

### **PROVIDING CERTAINTY IN TAXATION:**

Domestic taxpayers can declare undisclosed income or such income represented in the form of any asset by paying tax at 30%, and surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. Declarants will have immunity from prosecution.

Surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy.

New Dispute Resolution Scheme to be introduced. No penalty in respect of cases with disputed tax up to Rs.10 lakh. Cases with disputed tax exceeding Rs. 10 lakh to be subjected to 25% of the minimum of the imposable penalty. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty and tax interest on quantum addition.

Penalty rates to be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.

Disallowance will be limited to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed under rule 8D of Section 14-A of Income Tax Act.

Time limit of one year for disposing petitions of the tax payers seeking waiver of interest and penalty.

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Mandatory for the assessing officer to grant stay of demand once the assessee pays 15% of the disputed demand, while the appeal is pending before Commissioner of Income-tax (Appeals).

Monetary limit for deciding an appeal by a single member Bench of ITAT enhanced from Rs.15 lakhs to Rs.50 lakhs.  
11 new benches of Customs, Excise and Service Tax Appellate Tribunal (CESTAT).

### **SIMPLIFICATION & RATIONALIZATION OF TAXES:**

43 cesses, levied by various Ministries in which revenue collection is less than Rs. 50 crore in a year to be abolished.  
For non-residents providing alternative documents to PAN card, higher TDS not to apply.

Revision of return extended to Central Excise assesses.

Additional options to banking companies and financial institutions, including NBFCs for reversal of input tax credits with respect to non-taxable services.

Customs Act to provide for deferred payment of customs duties for Customs Single Window Project to be implemented at major ports and airports starting from beginning of next financial year.

### **TECHNOLOGY FOR ACCOUNTABILITY:**

Expansion in the scope of e-assessments to all assessees in 7 mega cities in the coming years.

Interest at the rate of 9% p.a against normal rate of 6% p.a for delay in giving effect to Appellate order beyond ninety days.

'e-Sahyog' to be expanded to reduce compliance cost, especially for small taxpayers.

## **RELAXATIONS FOR START-UPS**

### **A) ACCEPTANCE OF PAYMENTS:**

**To facilitate ease of doing business, the RBI has issued certain clarifications relating to acceptance of payments in case of start-ups, as under:**

- a) A start-up in India with an overseas subsidiary is permitted to open foreign currency account abroad to pool the foreign exchange earnings out of the exports/sales made by the concerned start-up;
- b) The overseas subsidiary of the start-up is also permitted

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to pool its receivables arising from the transactions with the residents in India & non-residents abroad into the said foreign currency a/c opened abroad in the name of the start-up;

- c) The balances in the said foreign currency account as due to the Indian start-up should be repatriated to India within a period as applicable to realisation of export proceeds (currently nine months);
- d) A start-up is also permitted to avail of the facility for realising the receivables of its overseas subsidiary or making the above repatriation through Online Payment Gateway Service Providers (OPGSPs) for value not exceeding USD 10,000 or up to such limit as may be permitted by the Reserve Bank of India from time to time under this facility; and
- e) To facilitate the above arrangement, an appropriate contractual arrangement between the start-up, its overseas subsidiary and the customers concerned should be in place.

### **B) ISSUE OF SHARES:**

The Reserve Bank has clarified that Indian companies are permitted to issue (i) shares without cash payment by the investor through sweat equity, subject to certain conditions; and (ii) equity shares against any other funds payable by the investee company (e.g. payments for use or acquisition of intellectual property rights, for import of goods, payment of dividends, interest payments, consultancy fees, etc.), remittance of which does not require prior permission.

### **Developments**

In the past few months, there have been many investments and developments in the Indian banking sector

- Global rating agency Moody's has upgraded its outlook for the Indian banking system to stable from negative based on its assessment of five drivers including improvement in operating environment and stable asset risk and capital scenario.
- Lok Capital, a private equity investor backed by US-based non-profit organisation Rockefeller Foundation, plans to invest up to US\$ 15 million in two proposed small finance banks in India over the next one year.
- The Reserve Bank of India (RBI) has granted in-principle licences to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas.

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- IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16.
- State Bank of India has tied up with e-commerce portal Snapdeal and payment gateway Paypal to finance MSME businesses.
- The United Economic Forum (UEF), an organisation that works to improve socio-economic status of the minority community in India, has signed a memorandum of understanding (MoU) with Indian Overseas Bank (IOB) for financing entrepreneurs from backward communities to set up businesses in Tamil Nadu
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- The RBI has allowed Indian alternative investment funds (AIFs), to invest abroad, in order to increase the investment opportunities for these funds.
- In order to boost the infrastructure sector and the banks financing long gestation projects, the RBI has extended its flexible refinancing and repayment option for long-term infrastructure projects to existing ones where the total exposure of lenders is more than Rs 500 crore.
- RBI governor Mr Raghuram Rajan and European Central Bank President Mr Mario Draghi have signed a MoU on cooperation in central banking. “The memorandum of understanding provides a framework for regular exchange of information, policy dialogue and technical cooperation between the two institutions. Technical cooperation may take the form of joint seminars and workshops in areas of mutual interest in the field of central banking.”
- RBL Bank informed that it would be the anchor investor in Trifecta Capital’s Venture Debt Fund, the first alternative investment fund (AIF) in India with a commitment of Rs 50 crore (US\$ 7.51 million). This move provides RBL Bank the opportunity to support the emerging venture debt market in India.
- Bandhan Financial Services raised Rs 1,600 crore (US\$ 240.2 million) from two international institutional investors to help convert its microfinance business into a full service bank. Bandhan, one of the two entities to get a banking licence along with IDFC, launched its banking operations in August 2015.
- The Reserve Bank, on January 21, 2016, allowed the designated commercial banks as defined in the Master Direction on Gold Monetisation Scheme, dated October 22, 2015, to sell the **India Gold Coins(IGCs)** minted by Metals and Minerals Trading Corporation of India (MMTC). The terms and conditions shall be as per the contract between the designated bank and MMTC. MMTC has been authorised by the Central Government to manufacture India Gold Coins (IGC) with Ashok Chakra and supply these coins to the domestic market. MMTC has clarified to the Reserve Bank that the gold used for the IGC will be

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only that mobilised domestically under the existing Gold Deposit Scheme and Gold Monetisation Scheme.

- The Reserve Bank in February 2015 put in circulation currency notes in one rupee denomination, printed by the Government of India. These currency notes are legal tender as provided in The Coinage Act 2011. March 2015.
- RBI released the Report of the Internal Working Group to Revisit the Existing Priority Sector Lending Guidelines (Chair: Lily Vadera, Chief General Manager, Dept. of Banking Regulation) on March 2, 2015
- The Reserve Bank, on April 10, 2015, issued revised guidelines for Priority Sector Lending after deliberating on the comments / suggestions received from Government of India, banks, and other stakeholders.
- RBI advised all scheduled commercial banks (excluding regional rural banks) and all India select financial institutions to follow the 'Framework for fraud risk management in banks' with effect from May 7, 2015
- RBI issued Rs100 denomination banknotes in Mahatma Gandhi Series – 2005 with a new numbering pattern. In these notes, the numerals in both the number panels of these banknotes are in ascending size from left to right, while the first three alphanumeric characters (prefix) remain constant in size.
- The Reserve Bank, on August 27, 2015 enhanced the limit for cash withdrawal at Point of Sale (POS -for debit cards and open system prepaid cards issued by banks in India) from Rs.1000/- to Rs.2000/- per day in Tier III to VI centres. Customer charges, if any, levied on cash withdrawals shall not exceed one per cent of the transaction amount at all centres irrespective of the limit.
- The Reserve Bank announced the designation of State Bank of India and ICICI Bank Ltd. as Domestic Systemically Important Banks (D-SIBs) on August 31, 2015.
- RBI on September 24, 2015, put into circulation banknotes in the denominations of Rs500 and Rs1000 incorporating three new/ revised features - (i) ascending size of numerals in the number panels, (ii) bleed lines, and (iii) enlarged identification mark.
- The Reserve Bank, on October 22, 2015 directed all scheduled commercial banks (excluding regional rural banks) on implementation of the Gold Monetisation Scheme, 2015 (GMS) notified by the Central Government.
- On November 24, 2015, RBI granted 'in principle' approval to the National Payments Corporation of India (NPCI) to function as the Bharat Bill Payment Central Unit (BBPCU) in Bharat Bill Payment System (BBPS).
- The Reserve Bank on December 17, 2015, announced the Marginal Cost of Funds Methodology for Interest Rate on Advances w.e.f. 01<sup>st</sup> April, 2016. Apart from helping improve the transmission of policy rates into the lending rates of banks, these measures are expected to improve transparency in the methodology followed by banks for determining interest rates on advances. The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks.

### **Government Initiatives**

The government and the regulator (RBI) have undertaken several measures to strengthen the Indian banking sector.

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- The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks. The special fund will potentially take over assets which are viable but don't have additional fresh equity from promoters coming in to complete the project.
- The Reserve Bank of India (RBI) plans to soon come out with guidelines, such as common risk-based know-your-customer (KYC) norms, to reinforce protection for consumers, especially since a large number of Indians have now been financially included post the government's massive drive to open a bank account for each household.
- To provide relief to the state electricity distribution companies, Government of India has proposed to their lenders that 75 per cent of their loans be converted to state government bonds in two phases by March 2017. This will help several banks, especially public sector banks, to offload credit to state electricity distribution companies from their loan book, thereby improving their asset quality.
- The Reserve Bank of India (RBI), the Department of Industrial Policy & Promotion (DIPP) and the Finance Ministry are planning to raise the Foreign Direct Investment (FDI) limit in private banks sector to 100 per cent from 74 per cent.
- Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the Pradhan Mantri Jan Dhan Yojana (PMJDY).
- The Government of India announced a capital infusion of Rs 6,990 crore in nine state run banks, including State Bank of India (SBI) and Punjab National Bank (PNB). However, the new efficiency parameters would include return on assets and return on equity. According to the finance ministry, "This year, the Government of India has adopted new criteria in which the banks which are more efficient would only be rewarded with extra capital for their equity so that they can further strengthen their position."
- To facilitate an easy access to finance by Micro and Small Enterprises (MSEs), the Government/RBI has launched Credit Guarantee Fund Scheme to provide guarantee cover for collateral free credit facilities extended to MSEs upto Rs 1 Crore. Moreover, Micro Units Development & Refinance Agency (MUDRA) Ltd. was also established to refinance all Micro-finance Institutions (MFIs), which are in the business of lending to micro / small business entities engaged in manufacturing, trading and services activities upto Rs 10 lakh.
- The central government has come out with draft proposals to encourage electronic transactions, including income tax benefits for payments made through debit or credit cards.
- The Union cabinet has approved the establishment of the US\$ 100 billion New Development Bank (NDB) envisaged by the five-member BRICS group as well as the BRICS "contingent reserve arrangement" (CRA).
- The government has plans to set up a fund that will provide surety to banks against loans given to students for higher education.

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- The Central Government on August 20, 2015, declared the second and the fourth Saturday of every month as public holiday for banks in India, whether or not such banks are included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), with effect from September 1, 2015. Banks will, however, function full time as on any working day on first, third and fifth Saturday of every month.

### **Road Ahead**

The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's the economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, in order to enhance the customer's overall experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market shortly. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

Our Bank, in order to provide value additions by offering online WILL creation services to its customers, has entered into an agreement with M/s. NSDL e-Governance Infrastructure Limited (NSDL eGov). NSDL e-Governance Infrastructure Limited (NSDL eGov) has, along with Warmond Trustees and Executors Pvt. Ltd. (Warmond), is offering an online service of data submission for 'WILL Preparation' through a computerized platform called EzeeWill System. **HO IC NO: 14113 dated 25.01.2016.**

In order to simplify SB account opening procedure and to leverage the technology to the benefit of the customer, the Bank has developed an Application (**Allbank Selfie**) through which the customer can submit to the Bank the basic information for opening of SB account through his mobile handset. This will be a tool to tap prospective customers. **HO IC NO: 14137 dated 03.02.2016**

### **RBI Sixth Bi-monthly Monetary Policy Statement, 2015-16**

On the basis of an assessment of the current and evolving macroeconomic situation, it has been decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.75 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liability (NDTL);
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-



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wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and

- Continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF will remain unchanged at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 7.75 per cent.

Since the fifth bi-monthly statement of December 2015, global growth has slowed, with the ongoing weakening of activity in major emerging market economies (EMEs) outweighing the recovery in some advanced economies (AEs). World trade has remained subdued, held down by anaemic demand, new lows in commodity prices and currency realignments. The December calm in global financial markets – suggesting that the normalisation of US monetary policy was fully anticipated – was dispelled in January 2016 by fears of further weakening of the Chinese economy and the depreciation of the Renminbi. Capital outflows from China triggered sell-offs across AEs and EMEs, exacerbating currency declines and heightening volatility. Crude oil prices fell below US \$ 30 per barrel – a 12-year low. Financial markets remain vulnerable to bouts of volatility and capital outflows from EMEs as an asset class. Bearish commodity price dynamics are also likely to impact investor sentiment.

On the domestic front, economic activity lost momentum in Q3 of 2015-16, pulled down by slackening agricultural and industrial growth. The north-east monsoon season ended in December with a deficiency of 23 per cent relative to the long period average (LPA). By end-January, *rabi* sowing was mildly deficient relative to a year ago, as well as to the quinquennial average in respect of all crops, except coarse cereals. Rural incomes will continue to be supported by allied activities such as dairy and horticulture, which now contribute as much to GDP as food grains. In the first two months of Q3 of 2015-16, industrial activity slowed in relation to the preceding quarter. This mainly reflects weak investment demand with some deceleration of capital goods production. Stalled projects continue to remain high, and there is a decline in new investment intentions, perhaps on the back of low capacity utilization. While revenue growth in manufacturing has been modest, the fall in costs, partly because of a decline in commodity prices, and partly because of improvements in manufacturing efficiency, have resulted in relatively stronger profitability. The Reserve Bank's industrial outlook survey suggests a modest expansion of activity likely in Q4. In January 2016, the manufacturing purchasing managers' index (PMI) expanded to a four-month high on, *inter alia*, resumption of output by firms affected by the December floods as well as on new domestic and export orders. Lead indicators of the services sector are mixed. Construction activity is still tepid, as evidenced by weak growth in cement production, though the pick-up in road construction bodes well for future activity, especially if supported by construction in the major proposed industrial corridors. Railway freight growth is still weak, though it may reflect lower transport needs for inputs like coal, and competition from roadways. However, the services PMI rose to a ten-month high in December on improvement in new business orders and upbeat expectations. Retail inflation measured by the consumer price index (CPI) rose for the fifth month in December across all constituent categories. CPI inflation excluding food and fuel rose for the fourth successive month. Excluding petrol and diesel from this category, inflation remained flat. Liquidity conditions tightened in the second half of December

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with advance tax outflows. Tightness spilled over into January 2016 on the back of a seasonal pick-up in demand for currency, restrained spending by the government and a pick-up in bank credit growth, in relation to deposit mobilisation. India's exports remained in contraction mode for the thirteenth successive month in December, although there are indications of a sequential bottoming out. In volume terms too, the rate of decline appears to be moderating. While softer petroleum, oil and lubricants (POL) and commodity prices helped to contain the trade deficit, these benign effects were offset by a spike in the quantum of gold and POL imports.

### **Modified Guidelines on Revitalising Stressed Assets**

Reserve Bank had issued various guidelines aimed at revitalising the stressed assets in the economy. These include: Strategic Debt Restructuring (SDR) Mechanism, Framework to Revitalise the Distressed Assets in the Economy, Revisions to the Guidelines on Restructuring of Advances by Banks, Flexible structuring of Long Term Project Loans and amendments to guidelines on Sale of Financial Assets to Securitisation Companies (SC)/Reconstruction Companies (RC).

### **Implementation of Indian Accounting Standards**

The Reserve Bank on February 11, 2016 advised the scheduled commercial banks (excluding regional rural banks) to follow the Indian Accounting Standards (Ind AS) as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guideline or direction issued by the Reserve Bank in this regard, in the following manner:

- Banks shall comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or thereafter. Ind AS shall be applicable to both standalone financial statements and consolidated financial statements.
- Banks shall apply Ind AS only as per the above timelines and shall not be permitted to adopt Ind AS earlier.
- Banks shall disclose in the Annual Report, the strategy for Ind AS implementation, including the progress made in this regard. These disclosures shall be made from the financial year 2016-17 until implementation.

### **Basel III Framework on Liquidity Standards**

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The Reserve Bank on February 11, 2016 permitted banks to reckon government securities held by them up to another three per cent of their Net Demand and Time Liabilities (NDTL) under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory Statutory Liquidity Ratio (SLR) requirement as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing their Liquidity Coverage Ratio (LCR). This is in addition to the assets allowed to banks as the Level 1 HQLAs for the purpose of computing the LCR of banks. Hence, the total carve-out from SLR available to banks would be 10 per cent of their NDTL. For this purpose, banks should continue to value such reckoned government securities within the mandatory SLR requirement at an amount not greater than their current market Value.

### **RBI rationalises FEMA Regulations**

The Reserve Bank, in consultation with the Government of India, has revised nine regulations issued under the Foreign Exchange Management Act, 1999 (FEMA). Consequently, the respective original notifications and subsequent amendments stand repealed. Some of the important AP (DIR Series) circulars issued on February 4, 2016 in respect of revised regulations include-

#### **Possession and Retention of Foreign Currency**

The Reserve Bank advised AD Banks on the limits for possession or retention of foreign currency or foreign coins, as under:-

- Possession without limit of foreign currency and coins by an authorised person within the scope of his authority
- Possession without limit of foreign coins by any person
- Retention by a person resident in India of foreign currency notes, bank notes and foreign currency travellers' cheques not exceeding US\$ 2000 or its equivalent in aggregate, provided that such foreign exchange was acquired by him –
  - a) While on a visit to any place outside India by way of payment for services not arising from any business in or anything done in India, or
  - b) From any person not resident in India and who is on a visit to India, as honorarium or gift or for services rendered or in settlement of any lawful obligation, or
  - c) By way of honorarium or gift while on a visit to any place outside India, or
  - d) Represents unspent amount of foreign exchange acquired by him from an authorised person for travel abroad.

The Reserve Bank also advised that a person resident in India but not permanently resident therein may possess without limit foreign currency in the form of currency notes, bank notes and travellers cheques, if such foreign currency was acquired, held or owned by him when he was resident outside India and, has been brought into India in accordance with the regulations made under the Act.

#### **Realisation, Repatriation and Surrender of Foreign Exchange**

Duty of Persons to realise Foreign Exchange due:- A person resident in India to whom any amount of foreign exchange is due or has accrued, shall take all reasonable steps to realise and repatriate to India such foreign exchange, and shall in no case do or refrain from doing anything, or take or refrain from taking any action, which has the effect of securing (a) that the receipt by him of the whole or part of that foreign exchange is delayed; or (b) that the foreign exchange ceases in whole or in part to be receivable by him.

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### Manner of Repatriation:-

1. On realisation of foreign exchange due, a person shall repatriate the same to India, namely bring into, or receive in, India.
2. A person shall be deemed to have repatriated the realised foreign exchange to India when he receives in India payment in rupees from the account of a bank or an exchange house situated in any country outside India, maintained with an authorised dealer.

### Period for Surrender in Certain Cases:-

1. A person not being an individual resident in India who does not use the foreign exchange, acquired or purchased by him/her for the purpose, as declared to the authorised dealer, shall surrender such foreign exchange or the unused portion thereof to an authorised person within a period of 60 days from the date of its acquisition or purchase by him/her.
2. If the foreign exchange acquired or purchased by any person not being an individual resident in India from an authorised person is for the purpose of foreign travel, then, the unspent balance of such foreign exchange shall be surrendered to an authorised person within 90 days from the date of return of the traveller to India (for unspent foreign exchange in the form of currency notes and coins); and within 180 days from the date of return of the traveller to India (for unspent foreign exchange in the form of travellers cheques).

### **Export and Import of Indian Currency and Currency Notes**

1. Any person resident in India, may take outside India (other than to Nepal and Bhutan) currency notes of Government of India and Reserve Bank of India notes up to an amount not exceeding Rs.25,000 per person and commemorative coins not exceeding two coins each. Any person, who had gone out of India on a temporary visit, may bring into India at the time of his return from any place outside India (other than from Nepal and Bhutan), currency notes up to an amount not exceeding Rs.25, 000 per person.
2. Any person resident outside India, not being a citizen of Pakistan or Bangladesh, and visiting India, may take outside India currency notes up to an amount not exceeding Rs.25, 000 per person and bring into India currency notes up to an amount not exceeding Rs.25, 000 per person.

Import of Foreign Exchange into India: A person may send into India without limit foreign exchange in any form other than currency notes, bank notes and travellers cheques; and may bring into India from any place outside India without limit foreign exchange (other than unissued notes) subject to the condition that such person makes, on arrival in India, a declaration to the Customs authorities in Currency Declaration Form (CDF).

**Acquisition and Transfer of Immovable Property:** The Reserve Bank advised AD banks that acquisition or transfer of any immovable property outside India by a person resident in India would require prior approval of Reserve Bank except in the following cases:

- Property held outside India by a foreign citizen resident in India;
- Property acquired by a person on or before July 8, 1947 and held with the permission of Reserve Bank;
- Property acquired by way of gift or inheritance from specified persons;

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- Property purchased out of funds held in Resident Foreign Currency (RFC) account held in accordance with the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015;
- Property acquired jointly with a relative who is a person resident outside India provided there is no outflow of funds from India;
- Property acquired by way of inheritance or gift from a person resident in India who acquired such property in accordance with the foreign exchange provisions in force at the time of such acquisition.

### **Relaxations for Start-ups: Acceptance of Payments**

A start-up in India with an overseas subsidiary is permitted to open foreign currency account abroad to pool the foreign exchange earnings out of the exports/sales made by the concerned start-up;

The overseas subsidiary of the start-up is also permitted to pool its receivables arising from the transactions with the residents in India and non-residents abroad into the said foreign currency account opened abroad in the name of the start-up;

The balances in the said foreign currency account as due to the Indian start-up should be repatriated to India within a period as applicable to realisation of export proceeds (currently nine months);

A start-up is also permitted to avail of the facility for realising the receivables of its overseas subsidiary or making the above repatriation through Online Payment Gateway Service Providers (OPGSPs) for value not exceeding USD 10,000 or up to such limit as may be permitted by the Reserve Bank of India from time to time under this facility.

**Issue of Shares:** The Reserve Bank clarified that Indian companies are permitted to issue (i) shares without cash payment by the investor through sweat equity, subject to certain conditions; and (ii) equity shares against any other funds payable by the investee company (e.g. payments for use or acquisition of intellectual property rights, for import of goods, payment of dividends, interest payments, consultancy fees, etc.), remittance of which does not require prior permission.

**Settlement of Export/ Import Transactions in Currencies:** To further liberalise the procedure and facilitate settlement of export and import transactions where the invoicing is in a freely convertible currency and the settlement takes place in the currency of the beneficiary, which though convertible, does not have a direct exchange rate, the Reserve Bank permitted authorised dealer category-I banks to settle such export and import transactions.

**Compilation of R>Returns: Reporting under Foreign Exchange Transactions Electronic Reporting System (FETERS):** with effect from the first fortnight of April 2016 (reporting of transactions which take place from April 1, 2016), as under:

- The present email-based submission will be replaced by web-portal based data submission.
- Nodal offices of banks have to access the web-portal <https://bop.rbi.org.in> with the RBI-provided login-name and password, to submit data.
- Banks may perform off-line check of their FETERS data-file for error, if any, before its submission on the portal, by downloading RBI-provided validator template from the portal.

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- On uploading validated files, banks will get acknowledgment. They can view the data-files with download facility and also revise the purpose codes for transaction submitted earlier.
- Banks may report (a) addition of AD code for their bank and (b) update AD category, which will be incorporated in the AD-master database by the Reserve Bank after due authentication.

Application for Regularisation of Assets held Abroad: The Reserve Bank on February 10, 2016 stated that applications seeking regularisation of assets held abroad by a person resident in India and declared under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (22 of 2015) (Black Money Act) under Foreign Exchange Management Act, 1999 (FEMA) will be considered at the Reserve Bank of India's Central Office, Mumbai. Applications in this regard may be addressed to Principal Chief General Manager, Foreign Exchange Department.

### **RTGS Service Charges**

To ensure that RTGS services are adequately priced, the Reserve Bank on February 4, 2016, has revised the fee structure for members and rationalised the charges levied on them. Inward transactions of the members will not attract any service charges and will continue to be free, as earlier. The membership fee has been marginally enhanced and it is now Rs.5000 for scheduled commercial banks and Rs.2500 for banks other than SCBs, primary dealers, clearing entities, other special entities, etc. Every outward transaction will attract flat processing charge at the earlier cap of Rs0.50 (exclusive of service tax) and a time varying charge as prescribed. The revised service charges for RTGS members will come into effect from April 1, 2016.

**Change in RTGS Time window:** RBI advised revised RTGS time window with effect from September 1, 2015 as under:

Time Event	Regular days including Saturdays, except 2 <sup>nd</sup> and 4 <sup>th</sup> Saturdays of the Month
Open for Business	08:00 hours
Initial Cut-off (Customer transactions)	16:30 hours
Final Cut-off (Inter-bank transactions)	19:45 hours
IDL Reversal	19:45 hours - 20:00 hours
End of Day	20:00 hours