



POLICY UPDATE

Roadmap for presence of foreign banks in India unveiled

Reserve Bank of India (RBI) on February 28, 2005 unveiled a roadmap for the presence of foreign banks in India to allow FDI up to 74% in the banking sector. These guidelines provide that foreign banks may operate in India through only one of the three channels, namely, (i) branch/es (ii) a Wholly owned Subsidiary (WOS) or (iii) a Subsidiary with an aggregate foreign investment up to 74% in a private Indian bank.

The roadmap is divided in two phases. During the first phase, between March, 2005 and March, 2009, foreign banks may establish a presence by way of setting up a WOS or conversion of existing branches into a WOS. To facilitate this, RBI has also issued detailed guidelines. The guidelines cover the eligibility criteria of the applicant foreign banks including a minimum capital requirement of Rs. 3.0 billion (US \$68.8 million) for the WOS. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitment of India of 12 branches in a year and preference for branch expansion in under-banked areas. During this phase, permission for acquisition of share holding in Indian private sector banks by eligible foreign banks will be limited to banks identified by RBI for restructuring. Such acquisition may take place if RBI is satisfied that such investment by the foreign bank concerned will be in the long term interest of all the stakeholders in the investee bank. The RBI may also specify, if necessary, that the investor bank shall make a minimum acquisition of 15% or more.

The second phase will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. The review would examine issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers/acquisitions of any private sector banks in India by a foreign bank in the second phase.

RBI has also issued guidelines on ownership and governance in private sector banks in India that provide for:

- RBI guidelines on acknowledgement for acquisition or transfer of shares of 5% and above in a private sector bank would continue.
- Approval of RBI is required for any single entity or group of related entities to have equity in excess of 10% in any bank.
- In case of restructuring of problem/weak banks or in the interest of consolidation in the banking sector, RBI may approve a higher level of shareholding, including by a bank.
- The aggregate foreign investment in private banks from all sources (FDI, FII, non-resident Indian) cannot exceed 74%.
- The current dispensation of having a limit of 10% for individual FII investment with a aggregate limit of 24% for all FIIs which can be raised to 49% with the approval of Board/General Body, will continue.
- Appropriate amending legislation will be proposed to the Banking Regulation Act in order to provide that the economic ownership of investors is reflected in the voting rights. Currently, the Banking Regulation Act of India imposed a 10% limit on voting rights of a single shareholder.

Guidelines are available at the website of RBI [RoadMap for Banking Reforms](#).

Guidelines of Government of India revising FDI cap to 74% are available at

<http://siadipp.nic.in/policy/changes.htm>

100% FDI welcomed in construction sector

The Ministry of Commerce & Industry, Government of India, has allowed 100% FDI in townships, housing, built-up infrastructure and construction-development projects (which would include, but not be restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure).

- Minimum area to be developed under each project would be 10 hectares in case of development of serviced housing plots and 50,000 sq. mts in case of construction-development projects.
- Minimum capitalization requirement is US \$10 million for wholly owned subsidiaries and US \$5 million for joint ventures with Indian partners.
- At least 50% of the project must be developed within a period of five years from the date of obtaining all statutory clearances.
- The investor can not sell undeveloped plots.

Guidelines issued by Ministry of Commerce & Industry are available at:
http://siadipp.nic.in/policy/changes/pn2_2005.pdf

An integrated food safety and standards law proposed in India

A new comprehensive law to regulate food standards is being proposed in India. At present, a large number of laws and agencies regulate food standards in India. The new law would establish a Food Safety and Standards Authority that would develop and regulate food standards based on scientific risk assessment. These standards would regulate manufacture, sale, export, import, storage and labeling of all food items in India. The standards would set limits for additives, toxic substances, insecticides etc. Genetically modified products are also proposed to be regulated by this law. The law would also mandate traceability of food articles during the manufacture and supply chain system for food safety. State Governments and customs authorities would implement the provisions of the law. Draft outlines of the bill are available at the website of the Ministry of Food Processing Industries <http://mofpi.nic.in>

NEWS HIGHLIGHTS

- **Indian exports and imports** are likely to exceed US \$75 billion and US \$100 billion respectively in the FY 2004-05. India's exports increased by 27.03% to US \$69.79 billion compared to last year during April-February 2004-05. India's imports increased by 36.33% to US \$93.63 billion during April-February 2004-05. Of this, oil imports were US \$26.65 billion (growth rate 44.45%) and non-oil imports were US \$66.98 billion (growth rate 33.36%). The trade deficit for April-February 2004-05 increased by 73.56% to US \$23.83 billion. Data on merchandise trade are available at http://commerce.nic.in/india_trade.htm
- Indian Finance Minister Mr. P. Chidambaram has stated that most **Indian States will implement VAT from April 01, 2005**. He said that if any State does not implement VAT from April 01, 2005, the existing sales tax regime will continue in that State.
- **India's teledensity touched 9%**, at the end of February '05 from 8.8% at the end of January '05. 2.1 million telecom subscribers consisting of 1.7 million in mobile and 0.4 million in the fixed line were added in February '05. With these, the total mobile subscriber base stood at more than 51.4 million at the end of February '05, while the total subscriber base of fixed lines stood at around 45.6 million.
- Mr. Ashok Jha, Secretary, Department of Industrial Policy & Promotion said that **India's FDI is likely to be in the range of \$7.5 to \$8 billion** this year as per IMF definition. In 2003-04, FDI stood at \$4.68 billion. Sectors attracting larger FDIs were automobiles, telecom, electrical equipment and consumer durables.
- In conformity with international practices, **India has notified Export of Services Rules, 2005** effective 15th March 2005. Accordingly, taxable services will be allowed to be exported without payment of service tax. If services are exported after payment of service tax, the rebate of service tax paid on such taxable services would be available. Details are available at <http://www.pib.nic.in/release/release.asp?relid=7530&kwcd=>
- According to Nasscom Strategic Review, 2005, the **IT-ITeS exports from India will touch \$17.9 billion** in 2004-05, an expected growth of 34.58 percent over last fiscal. In ITeS-BPO and IT services and software segments, the exports are expected to be US \$5 billion and US \$12.2 billion respectively in FY 2004-05.
- The Multi Commodity Exchange of India Ltd (MCX) has launched **The Futures Trading in Crude Oil** in India. The MCX have also entered into a joint venture with Financial Technologies (India) Ltd., and National Agricultural Cooperative Marketing Federation of India Limited (NAFED) for the **establishment of National Spot Exchange for Agriculture Produce (NSEAP)** during the second half of 2005-06.