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Finance Minister Meets RBI Central Board Directors

The Central Board of the Reserve Bank of India commenced its meeting held in New Delhi on February 18, 2019 by observing two minutes silence in memory of the security force personnel who laid down their lives in Pulwama.

Shri Arun Jaitley, Hon'ble Union Minister of Finance addressed the post-Budget meeting of the Central Board. The Hon'ble Finance Minister in his address broadly outlined the various reforms and policy measures taken by the Government over the last four years and the effects thereof.

The meeting was also attended by Shri Shiv Pratap Shukla, Minister of State for Finance, Shri Ajay Narayan Jha, Finance Secretary and Secretary (Expenditure), Shri Ajay Bhushan Pandey, Secretary (Revenue) and Shri Krishnamurthy Subramanian, Chief Economic Adviser.

The Board continued its meeting after the interaction with the Finance Minister was over. The Board reviewed the current economic situation, global and domestic challenges and other specific areas of operations of the Reserve Bank. Based on a limited audit review and after applying the extant economic capital framework, the Board decided to transfer an interim surplus of ₹280 billion to the central government for the half-year ended December 31, 2018. This is the second successive year that the Reserve Bank will be transferring an interim surplus.

Shri Shaktikanta Das, Governor chaired the meeting of the Central Board. Deputy Governors Shri N. S. Vishwanathan, Dr Viral V. Acharya, Shri B. P. Kanungo and Shri Mahesh Kumar Jain of the Reserve Bank of India, and other Directors of the Central Board of the Reserve Bank - Shri Bharat Doshi, Shri Sudhir Mankad, Shri Manish Sabharwal, Dr Prasanna Kumar Mohanty, Shri Dilip S. Shanghvi, Shri Satish Marathe, Shri Swaminathan Gurumurthy, Ms. Revathy Iyer and Prof. Sachin Chaturvedi, attended the meeting. Government directors Shri Subhash Chandra Garg, Secretary, Department of Economic Affairs and Shri Rajiv Kumar, Secretary, Department of Financial Services were also present.

Monetary Policy

Sixth Bi-monthly Monetary Policy Statement, 2018-19

Resolution of the MPC

On the basis of an assessment of the current and evolving macroeconomic situation at its meeting on February 7, 2019, the Monetary Policy Committee (MPC) decided to reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.5 per cent to 6.25 per cent. Consequently, the reverse repo rate under the LAF stands adjusted to 6.0 per cent, and the Marginal Standing Facility (MSF) rate and the Bank Rate to 6.5 per cent. The MPC decided to change the monetary policy stance from 'calibrated tightening' to neutral. The decisions of the MPC are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent while supporting growth. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46235)

Statement on Developmental and Regulatory Policies

Relaxation of ECB framework under CIRP

Under the extant External Commercial Borrowing Framework (ECB), proceeds of ECB denominated in either foreign currency or Indian Rupee (INR), are not permitted to be utilised for repayment or for on-lending for repayment of domestic rupee loans. The resolution applicants under Corporate Insolvency Resolution Process (CIRP) under the Insolvency and Bankruptcy Code (IBC), 2016 may find it attractive to borrow abroad to repay the existing lenders. In view of this, it is proposed to relax the end-use restrictions under approval route of the ECB framework for the resolution of applicants under the CIRP and allow them to utilise the ECB proceeds for repayment of Rupee term loans of the target company.

Review of Instructions on Bulk Deposits

With a view to enhancing the operational freedom of banks in raising deposits, it is proposed to revise the definition of bulk deposits as single rupee deposits of ₹2 crore and above; and henceforth banks shall maintain their bulk deposit interest rate cards in the core banking system for supervisory review.

Umbrella Organisation for UCBs

With a view to provide a long-term solution for making Urban Cooperative Banks (UCBs) resilient and enhance depositors' confidence, it is proposed to set up an Umbrella Organization (UO) for UCBs. Apart from extending liquidity and capital support to its member UCBs, it would also be tasked with setting up Information and Technology (IT) infrastructure for shared use of members to enable them to widen their range of services in the wake of advances in information and communication technology at a relatively lower cost. The UO can also offer fund management and other consultancy services. The idea of a UO for UCBs was first mooted by the 'Working Group on Augmentation of Capital of UCBs' chaired by Deputy Governor Shri N. S. Vishwanathan in 2006.

Risk Weights for rated exposures to NBFCs

With a view to facilitating the flow of credit to well-rated Non-Banking Financial Companies (NBFCs), it has now been decided that rated exposures of banks to all NBFCs, excluding Core Investment Companies (CICs), would be risk-weighted as per the ratings assigned by accredited rating agencies, in a manner similar to that for corporates. Exposures to CICs will continue to be risk-weighted at 100 per cent.

Harmonisation of NBFC Categories

It has now been decided to harmonise major categories of NBFCs engaged in credit intermediation - Asset Finance Companies (AFC), Loan Companies, and Investment Companies, into a single category. The proposed merger of existing categories would reduce the complexities arising from multiple categories and also provide the NBFCs greater flexibility in their operations. It will cover 99 per cent of the NBFCs by number. Further, with the recent rationalisation and liberalization of ECB norms, differential rules applicable to various categories of NBFCs stand harmonised.

Foreign Exchange Derivative facilities

The Reserve Bank had announced in the Statement on Developmental and Regulatory Policies in the Monetary Policy Statements in February 2018 and August 2018 that a review of guidelines relating to foreign exchange derivatives for residents and non-residents under FEMA-25 regulation would be undertaken. Accordingly, a review of the same has been carried out and a draft of the revised directions is being put in the public domain for seeking comments.

Task Force on Offshore Rupee Markets

In order to take forward the process of gradual opening up of the foreign exchange market and also to benefit from a wider range of participants and views, it is proposed to set up a Task Force on Offshore Rupee Markets. The Task Force will examine issues relating to the offshore Rupee markets in depth, and recommend appropriate policy measures that also factor in the requirement of ensuring stability of the external value of the Rupee.

Rationalisation of Interest Rate Derivative Directions

It is proposed to rationalise interest rate derivative regulations to achieve consistency and ease of access with the eventual objective of fostering a thriving environment for management of interest rate risk in the Indian economy. The draft comprehensive guidelines will be issued for public feedback by the end of March 2019.

Regulation of Financial Benchmarks

It was proposed in the Statement on Developmental and Regulatory Policies, in the Fourth Bi-monthly Monetary Policy Statement dated October 05, 2018, to introduce a regulatory framework for financial benchmarks to improve the governance of the benchmark processes relating to financial products and markets regulated by the Reserve Bank. Draft guidelines are being issued for public consultation.

FPI Investment in Corporate Debt

As part of the review of the investment by Foreign Portfolio Investors (FPI) in Corporate Debt undertaken in April 2018, it was stipulated that no FPI shall have an exposure of more than 20 per cent of its corporate bond portfolio to a single corporate (including exposure to entities related to the corporate). FPIs were given exemption from this requirement on their new investments till end-March 2019 to adjust their portfolios. While the provision was aimed at incentivising FPIs to maintain a portfolio of assets, further market feedback indicates that FPIs have been constrained by this stipulation. In order to encourage a wider spectrum of investors to access the Indian corporate debt market, it is now proposed to withdraw this provision.

Payment Gateway Service Providers and Aggregators

The Reserve Bank has been examining the need and feasibility of regulating Payment Gateway Service Providers and Payment Aggregators. A discussion paper on comprehensive guidelines covering payments related activities of these entities would be placed in public domain for consultation with the stakeholders.

Working Group to Review Agricultural Credit

Agricultural credit growth has been significant over the years. In spite of this, there remain issues relating to agricultural credit such as regional disparity, extent of coverage, etc. There is also the issue of deepening long-term agricultural credit for capital formation. To examine these issues and arrive at workable solutions and policy initiatives, an Internal Working Group (IWG) to Review Agricultural Credit has been constituted by the Reserve Bank. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46237)

Banking Regulation

MSMEs Restructuring of Advances - Clarification

The Reserve Bank on February 22, 2019 issued a clarification on one of the conditions enlisted in the circular DBR.No.BP.18/21.04.048/2018-19 on Restructuring of Advances to Micro, Small and Medium Enterprises (MSME) sector dated January 1, 2019. The condition that the borrowing entity is GST registered on the date of implementation of restructuring will not apply to those MSMEs that are exempt from GST-registration. However, the eligibility for restructuring without GST registration as per the circular should be determined on the basis of exemption limit obtained as on January 1, 2019. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11480&Mode=0)

Review of Instructions on Bulk Deposits

With a view to providing operational freedom to banks in raising bulk deposits, the Reserve Bank on February 22, 2019 amended the instructions on Bulk Deposits contained in Master Direction - DBR.Dir.No.84/13.03.00/2015-16 dated March 03, 2016. Earlier, under para No. 3 (a) (i) Bulk Deposits were defined as: (i) Single Rupee term deposits of Rupees One Crore and above for Scheduled Commercial Banks other than Regional Rural Banks (RRBs) and (ii) Single Rupee term deposits of Rupees Fifteen Lakhs and above for RRBs. The existing para No. 3 (a) (i) has since been amended to redefine Bulk Deposit as (i) Single Rupee term deposits of Rupees Two Crore and above for Scheduled Commercial Banks (excluding Regional Rural Banks) and Small Finance Banks. The existing paragraph No. 4 (c) has been amended with an addendum, reading: Banks shall maintain the bulk deposit interest rate card in their Core Banking System to facilitate supervisory review. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11481&Mode=0)

Non-Banking Regulation

Harmonisation of NBFCs

The Reserve Bank of India on February 22, 2019 decided to merge the three categories of NBFCs viz., Asset Finance Companies (AFC), Loan Companies (LCs) and Investment

Companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC). The merger is also aimed at providing greater operational flexibility to NBFCs. Differential regulations relating to banks' exposure to the three categories of NBFCs viz., AFCs, LCs and ICs also stand harmonised vide Bank's circular DBR.BP.BC. No.25/21.06.001/2018-19 dated, February 22, 2019. Further, a deposit taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund. The harmonisation also provides for simplification of regulatory prescriptions governing the NBFC sector. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11483&Mode=0)

Risk-Weights for Exposures to NBFCs

As indicated in the Statement on Developmental and Regulatory Policies dated February 7, 2019, The Reserve Bank decided that exposures to all NBFCs, excluding Core Investment Companies (CICs), will be risk weighted as per the ratings assigned by SEBI registered and RBI accredited rating agencies in a manner similar to that of corporates as prescribed under para 5.8.1 of the Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on Basel III Capital Regulations, read with Circular DBR.No.BP.BC.6/21.06.001/2016-17 dated August 25, 2016 on 'Review of Prudential Norms –Risk Weights for Exposures to Corporates, AFCs and NBFC-IFCs' and Mailbox Clarification dated December 29, 2017. Exposures to CICs, rated as well as unrated, will continue to be risk-weighted at 100 per cent. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11479&Mode=0)

Financial Inclusion

Interest Subvention Scheme for MSMEs

The Government of India had announced the 'Interest Subvention Scheme for MEME 2018' on November 2, 2018. The Reserve Bank on February 21, 2019 has requested the Chairmen and Managing Directors of all Scheduled Commercial Banks to take appropriate action as envisaged for banks and issue necessary instructions to bank branches and controlling offices of banks for the successful implementation of the scheme. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11478&Mode=0#enclosed)

Credit Flow to Agriculture – Collateral Free Loans

The Reserve Bank of India, keeping in view the overall inflation and rise in agriculture input cost since 2010, decided to raise the limit for collateral free agricultural loans from the existing level of ₹ 1 lakh to ₹ 1.6 lakh. Accordingly, banks were asked to waive margin requirements for agriculture loans up to ₹1.6 lakh. Announcement to this effect was made in paragraph 13 of the Statement on Developmental and Regulatory Policies of the Sixth Bi-Monthly Monetary Policy Statement 2018-19 on February 7, 2019. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11469&Mode=0)

Payment and Settlement System

Ombudsman Scheme for Digital Transactions

The Reserve Bank notified the Ombudsman Scheme for Digital Transactions (OSDT) for redressal of complaints in digital transactions on January 31, 2019. The Scheme, launched under Section 18 of the Payment and Settlement Systems Act 2007, will provide a cost-free and expeditious complaint redressal mechanism for deficiency in customer services in digital transactions conducted through non-bank entities regulated by RBI. Complaints relating to digital transactions conducted through banks will continue to be handled under the extant Banking Ombudsman Scheme. The offices of Ombudsman for Digital Transactions will function from the existing 21 offices of the Banking Ombudsman and will handle complaints of customers from their respective territorial jurisdiction. The Scheme also provides for an Appellate mechanism under which the complainant/System Participant has the option to appeal against the decision of the Ombudsman before the Appellate Authority. Details of the complete scheme are available on the RBI website. (https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3631)

Surveys

Reserve Bank of India released the results of forward-looking surveys on its website on February 7, 2019.

Consumer Confidence Survey

The December 2018 round of the survey was conducted in 13 major cities – Ahmedabad; Bengaluru; Bhopal; Chennai; Delhi; Guwahati; Hyderabad; Jaipur; Kolkata; Lucknow; Mumbai; Patna; and Thiruvananthapuram - and obtained 5,347 responses on households' perceptions and expectations on the general economic situation, the employment scenario, the overall price situation and their own income and spending.

Highlights

- Consumer confidence turned around in the December 2018 round with the current situation index (CSI) gaining 2.8 points, though still remaining in the pessimistic territory.
- The future expectations index (FEI) recorded a sharp uptick, with increased optimism about the general economic situation and employment scenario.
- Pessimism on the general economic situation in the last few rounds seems to have been arrested in the current round; the outlook for the year ahead was also more optimistic than before.
- Although consumers remain worried about the current employment situation, majority expects improvement in future.
- Sharp improvement is seen in the price situation in the country for the current period as well as a year ahead.
- While respondents mostly reported unchanged incomes in the year gone by, more than 60 per cent expect their incomes to rise in the year ahead.
- Sentiments on spending remained almost unchanged from the previous round. (https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18776)

Households' Inflation Expectations Survey

Highlights

- The proportion of respondents expecting general prices to rise in the next three months and one year ahead horizons fell sharply in relation to the November 2018 round with a similar pattern observed in respect of most of the product groups, and especially for food and non-food products.

- Respondents also moderated their expectations with respect to the rate of future price changes.
- In quantitative terms, three months ahead and one year ahead median inflation expectations dropped by 80 and 130 basis points (bps) respectively, from their readings in the November 2018 round.
- The decline in quantitative expectations was observed across various groups of the respondents. (https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18777)

Survey of Professional Forecasters

The results of the 56th round of the Survey of Professional Forecasters on Macroeconomic Indicators indicated that: Growth is expected to firm up in 2018-19 and 2019-20 on the back of private consumption. Consumer price inflation is expected to increase in Q4:2018-19, firm up further and remain above 4.0 per cent in Q3:2019-20. Twenty-seven panellists participated in the 56th round of the survey conducted during January 2019.

Highlights

Output

- Real gross domestic product (GDP) is likely to grow at 7.2 per cent in 2018-19 and is expected to accelerate further by 10 basis points (bps) in 2019-20 on the back of support from private consumption.
- The investment rate, proxied by the ratio of gross fixed capital formation to GDP, is expected to improve in 2018-19 and 2019-20.
- Real gross value added (GVA) is expected to grow by 7.0 per cent in 2018-19 and by 7.2 per cent in 2019-20, supported by activity in industrial and services sectors.
- Forecasters have assigned the maximum probability to GDP growth being in the range of 7.0-7.4 per cent in both 2018-19 and 2019-20.

Inflation

- Headline consumer price index (CPI) inflation is expected at 3.1 per cent in Q4:2018-19 and thereafter may increase gradually to reach 4.4 per cent by Q3:2019-20.
- CPI inflation excluding food and beverages, pan, tobacco and intoxicants, fuel and light is expected at 5.6 per cent in Q4:2018-19 and is likely to decrease gradually thereafter, although remaining above 5.0 per cent till Q2:2019-20.
- Forecasters have assigned the highest probability to CPI inflation being in the range of 3.0-3.4 per cent in Q4:2018-19 and Q1:2019-20, 3.5- 4.4 per cent in Q2:2019-20 and 4.5- 4.9 per cent in Q3:2019-20.

External Sector

- The forecast for growth in merchandise exports and merchandise imports during 2018-19 is expected at 9.7 per cent and 12.2 per cent respectively, but deceleration is expected in 2019-20.
- The current account deficit (CAD) is expected at 2.5 per cent of GDP in 2018-19 but may improve in 2019-20.
- The Indian rupee is likely to remain around ₹ 71 per US Dollar till Q3:2019-20. (https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18778)

Industrial Outlook Survey for Q3:2018-19

The Reserve Bank released the results of the 84th round of the Industrial Outlook Survey (IOS) of the manufacturing sector conducted in October-December 2018. The Survey captures qualitative assessments of the business environment by companies in India's manufacturing sector for Q3:2018-19 and their expectations for Q4:2018-191. Responses were received from 1,267 companies in this round of the survey.

Highlights

- Demand conditions in Q3:2018-19 presented a mixed picture - the assessment of production and order books showed signs of moderations relative to Q2:2018-19; responses in respect of capacity utilisation remained at the same level as in the previous quarter; in respect of exports, respondents expressed rising optimism.
- Sentiments regarding the overall financial situation ebbed slightly, reflecting concerns on the availability of finance from both internal accruals and external sources.
- While input cost pressures (on raw materials and salary expenses) eased, lack of pricing power shrank the profit margin relative to the previous round of the survey.
- Overall business sentiment in the Indian manufacturing sector moderated, as reflected in the Business Assessment Index (BAI), which moved from 110.0 in Q2:2018-19 to 107.1 in Q3:2018'19. As regards expectations for Q4: 2018-19, respondents were optimistic on the outlook about demand conditions.
- Sentiment on the overall financial situation also improved on expectations of easier availability of finance.
- While optimism on the outlook for selling prices moderated, profit margins are expected to improve with reduced input costs (finance, raw materials and salary outgo).
- The Business Expectations Index (BEI) improved from 115.0 in Q3:2018-19 to 116.2 in Q4:2018-19. (https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18779)

OBICUS Survey – Q2:2018-19

The Reserve Bank released the results of the 43rd round of Order Books, Inventories and Capacity Utilisation Survey (OBICUS) on the manufacturing sector for the quarter July-September 2018 covering 945 manufacturing companies. The survey provides a snapshot of demand conditions in India's manufacturing sector.

Highlights:

- Capacity Utilisation (CU): At the aggregate level, CU rose to 74.8 per cent in Q2:2018-19, co-moving with the de-trended index of industrial production (IIP). Seasonally adjusted CU also increased by 0.4 percentage point to 75.3 per cent in Q2:2018-19.
- Order Books: New orders growth moderated in Q2:2018-19.
- Finished Goods Inventory (FGI) to Sales Ratio: In anticipation of higher demand in the festival season, producers might have stocked up on finished goods leading to increase in the level of FGI to sales ratio from the previous quarter.
- Raw Material Inventory (RMI) to Sales Ratio: The rise in sales during Q2:2018-19 brought the RMI to Sales ratio closer to the trend level. (https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=18780)

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