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Monetary and Credit Information Review

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Second 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 held on June 6, 2018, the Monetary Policy Committee (MPC) decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points 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 6.50 per cent.

The decision of the MPC is consistent with the neutral stance of monetary policy 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.

Developmental and Regulatory Policy Measures

Regulation and Supervision

- For the purpose of computing Liquidity Coverage Ratio (LCR), the total carve-out from Statutory Liquidity Ratio (SLR) available to banks would be 13 per cent of their NDTL.
- The valuation of securities issued by each state government should be valued based on observed prices. The valuation of traded state government securities would now be at the price at which they have been traded in the market. In case of non-traded state government securities, the valuation would be based on the state-specific weighted average spread over the yield of the central government securities of equivalent maturity, as observed at primary auctions.
- In view of the continuing rise in yield of government securities as also the inadequacy of time to build an Investment Fluctuation Reserve (IFR) for many banks, banks would be granted the option to spread the mark-to-market (MTM) losses on investments held in Available for Sale (AFS) and Held for Trading (HFT) portfolio for the quarter ending June 30, 2018, equally over a period of four quarters, commencing from the quarter ending June 30, 2018.
- Urban Cooperative Banks (UCBs) meeting the prescribed criteria, would now be allowed for voluntary transition into Small Finance Banks (SFBs).
- To encourage formalisation of the MSME Sector, banks and NBFCs would be temporarily allowed to classify their exposure, as per the 180 day past due criterion, to all MSMEs with aggregate credit facilities up to ₹ 250 million limit, including those not registered under GST.
- With a view to bring greater convergence of the Priority Sector Lending (PSL) guidelines for housing loans with the Affordable Housing Scheme, and to give a fillip to the low-cost housing for the economically weaker sections and lower income groups, the housing loan eligibility limits for PSL have been revised upwards.
- Keeping in view the increasing level of NPAs for the ticket size of up to ₹ 2 lakh, banks are advised to strengthen their screening and follow up in respect of lending to housing sector in particular.
- Core Investment Companies (CICs) registered with the Reserve Bank as Non-Bank Financial Companies (NBFCs), now permitted to invest in Infrastructure Investment Trusts (InvITs) as Sponsors within limits on amount and tenor as prescribed by Securities and Exchange Board of India (SEBI) (Infrastructure Investment Trusts) Regulations, 2014.

Shri Mahesh Kumar Jain appointed as RBI Deputy Governor

Shri Mahesh Kumar Jain took charge as the Deputy Governor of Reserve Bank of India on June 22, 2018. The Government of India, on June 4, 2018 appointed him as the Deputy Governor of Reserve Bank of India for a period of three years from the date of assumption of charge or until further orders, whichever is earlier. Shri Jain was the MD & CEO of IDBI Bank before being appointed as Deputy Governor.

As Deputy Governor, Shri Jain will look after the Department of Banking Supervision, Department of Co-operative Banking Supervision, Department of Non-Banking Supervision, Central Security Cell, Department of Corporate Services including Document Management System, Rajbhasha Department, Consumer Education and Protection Department, Financial Inclusion and Development Department and Premises Department. (https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=44286)

Financial Markets

- With a view to harmonise Liquidity Adjustment Facility (LAF) haircuts with international standards, it has been decided to require — starting August 1, 2018 — initial margin on collateral of Central Government Securities (including T-bills) and State Development Loans (SDLs) on the basis of its residual maturity.
- To enhance participation in Government Securities Market (G-Sec) it has been decided to liberalise the eligible participants' base, relax the entity-wise and security category-wise limits for short selling in G-Sec and for taking positions in the when issued market.
- In order to provide comprehensive services to Foreign Portfolio Investor (FPI) clients, Standalone Primary Dealers (SPDs) would be provided a limited foreign exchange licence. With a view to increase activity and participation in financial markets and redistribute financial exposure of the banking system, it is proposed to introduce regulations, in line with the best global practices, to prevent abuse in markets regulated by the Reserve Bank.
- The Reserve Bank would lay down the framework for the recognition of the foreign Central Counter-parties (CCPs) as also the capital requirement and governance framework for all CCPs so that these entities function in an efficient and effective manner.

Debt Management

- In order to further incentivise adequate maintenance of Consolidated Sinking Fund and Guarantee Redemption Fund of State Governments and to encourage them to increase the corpus of these funds, it has been decided to lower the rate of interest on Standing Deposit Facility (SDF) from 100 bps below the Repo Rate to 200 bps below the Repo Rate.

Payment and Settlement

- In order to minimise concentration risk in retail payment systems from a financial stability perspective, the Reserve Bank plans to encourage more players to participate in and promote pan-India payment platforms so as to give a fillip to innovation and competition in the sector.

Currency Management

- The Reserve Bank has been sensitive to the challenges faced by the visually challenged in conducting their day to day business with Indian banknotes. Hence, the Reserve Bank, in consultation with various entities representing the visually challenged, will explore the feasibility of developing a suitable device or mechanism for aiding them in the identification of Indian banknotes.

Other Measures

- With a view to address information asymmetry, foster access to credit, and strengthen the credit culture in the economy and as per the recommendations of the High Level Task Force on Public Credit Registry (PCR) for India (Chairman: Shri Yeshwant M. Deosthalee), an Implementation Task Force (ITF) is being constituted by the Reserve Bank to help design undertake logistics for the next steps in setting up of the Public Credit Registry (PCR)
- It has been decided that furnishing of PAN, which hitherto was not to be insisted upon while putting through permissible current account transactions of up to USD 25000, shall now be mandatory for making all remittances under the Liberalised Remittance Scheme (LRS) by Authorised Dealer (AD) banks. Further, in the context of remittances allowed under LRS for maintenance of close relatives, it has been decided to align the definition of 'relative' with the definition given in Companies Act, 2013 instead of Companies Act, 1956.

Banking Regulation

Encouraging Formalisation of MSME Sector

The Reserve Bank on June 6, 2018 decided to temporarily allow banks and NBFCs to classify their aggregate exposure up to ₹ 250 million as on May 31, 2018, as per the 180 days past due criterion, to all Micro Small and Medium Enterprises (MSMEs), including those not registered under Goods and Services Tax (GST), as a 'standard' asset, subject to certain conditions.

Period during which any payment falls due	Time permitted
September 1, 2017 – December 31, 2018	180 days
January 1, 2019 – February 28, 2019	150 days
March 1, 2019 to April 30, 2019	120 days
May 1, 2019 onwards	90 days

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11289&Mode=0)

Spreading of MTM Losses and Creation of IFR

In view of the continuing rise in the yields on government securities, as also the inadequacy of time to build Investment Fluctuation Reserve (IFR) for many banks, the Reserve Bank on June 15, 2018 granted banks the option to spread provisioning for their mark to market (MTM) losses on all investments held in available-for-sale (AFS) and held-for-trading (HFT) for the quarter ending June 30, 2018 as well. The provisioning required may be spread equally over up to four quarters, commencing with the quarter ending June 30, 2018.

Banks that utilise the above option shall make suitable disclosures in their notes to accounts/ quarterly results providing details of (i) the provisions made for depreciation of the investment portfolio for the quarter ending June 2018 and (ii) the balance required to be made in the remaining quarters. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11304&Mode=0)

Payment of Interest - Operational Guidelines

The Reserve Bank decided that the rate of interest payable by banks to the depositors/claimants on the unclaimed interest bearing deposit amount transferred to the Depositor Education and Awareness Fund shall be 3.5 per cent simple interest per annum with effect from July 1, 2018. The settlement of all claims received by the banks on or after July 1, 2018 will be at this rate, until further notice. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11294&Mode=0)

Basel III Framework on Liquidity Standards

The Reserve Bank on June 15, 2018 permitted banks, to reckon government securities held by them up to another 2 per cent of their NDTL, under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory SLR requirement, as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing their LCR. Hence, the carve-out from SLR, under FALLCR will now be 11 per cent, taking the total carve out from SLR available to banks to 13 per cent of their NDTL. For the purpose of LCR, banks shall continue to value such government securities reckoned as HQLA at an amount not greater than their current market value (irrespective of the category under which the security is held, i.e., HTM, AFS or HFT). (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11305&Mode=0)

Banking Supervision

Control Measures for ATMs

In order to address the issues regarding ATMs operating on unsupported version of operating system and non-implementation of other security measures in a time-bound manner, the Reserve Bank on June 21, 2018, advised banks and white label ATM operators to initiate immediate action in this regard and implement certain control measures as per the prescribed timelines indicated.

A copy of above mentioned RBI circular may be placed before the Board of Directors of respective banks at their ensuing meeting, along with the proposed action plan for implementation of these measures. A copy of the Board-approved compliance/action plan in respect of aforesaid control measures may be sent to the Reserve Bank latest by July 31, 2018. The progress made in implementation of these measures should be closely monitored to ensure meeting the prescribed timelines. As the implementation of the foregoing control measures would also require field visit(s) to ATMs, banks should plan and implement these measures in an optimal manner. It may be noted that any deficiency in timely and effective compliance may invite appropriate supervisory enforcement action under applicable provisions of the Banking Regulation Act, 1949 and/or Payment and Settlement Systems Act, 2007.(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11311&Mode=0)

Financial Inclusion and Development

Continuation of Interest Subvention Scheme

The Reserve Bank in consultation with the Government of India (GoI) on June 7, 2018 has informed that they have initiated the process for continuation of the Interest Subvention Scheme (ISS) 2018-19.

As advised by GoI, as an interim measure, the Interest Subvention Scheme will be implemented in 2018-19 till further instructions are received, on the terms and conditions approved for the Scheme for 2017-18. All banks are, therefore, advised to take note and implement the Interest Subvention Scheme for 2018-19 accordingly.

Further, as advised by GoI, from 2018-19 the ISS is being put on Direct Benefit Transfer (DBT) mode on 'In kind/services' basis and not on 'In cash' basis and all loans processed in 2018-19 are required to be brought on ISS portal/DBT platform, once it is launched.

Although the Plan/Non-plan categorisation of ISS has been dispensed with from the current financial year (2017-18), banks are required to capture category-wise data (General, Scheduled Caste (SC), Scheduled Tribes (ST), North Eastern Region (NER)-General, North Eastern Region (NER)-SC, North Eastern Region (NER)-ST) of beneficiaries under the Scheme for reporting of the same on ISS portal individual farmer wise to settle the claims arising from 2018-19 onwards. Till such time the DBT portal becomes functional, banks are requested to submit their claims, category-wise as indicated above.

The Reserve Bank in consultation with the Government is working on the detailed modalities regarding categorisation of loans. Till such time the modalities are finalised, banks may obtain the category-wise data on self-declaration basis. There should, however, be no cap on the loans given under each category. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11293&Mode=0)

Priority Sector Lending – Targets and Classification

With a view to bring in convergence of the 'Priority Sector Lending' guidelines for housing loans with the Affordable Housing Scheme, and to give a fillip to low-cost housing for the economically weaker sections (EWS) and low income groups, the Reserve Bank on June 19, 2018 revised the housing loan limits for eligibility under priority sector lending to ₹ 35 lakh in metropolitan centres (with population of ten lakh and above), and ₹ 25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed ₹ 45 lakh and ₹ 30 lakh, respectively.

Furthermore, the existing family income limit of ₹ 2 lakh per annum, prescribed for loans to housing projects exclusively for the purpose of construction of houses for EWS and low income groups (LIG), is revised to ₹ 3 lakh per annum for EWS and ₹ 6 lakh per annum for LIG, in alignment with the income criteria specified under the Pradhan Mantri Awas Yojana. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11308&Mode=0)

Financial Markets Operation

Margin Requirements under LAF and MSF reviewed

The Reserve Bank on June 6, 2018 decided to assign margin requirement on the basis of residual maturity of the collateral, namely, treasury bills, central government dated securities (including oil bonds) and state development loans (SDLs). Further, it has also been decided that the margin requirement for rated SDLs shall be 1 per cent lower than that of unrated SDLs for the same maturity bucket. The revised margin requirements would come into force with effect from August 1, 2018. All other terms and conditions of the current LAF (Repo) and MSF schemes will remain unchanged. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11291&Mode=0)

Financial Markets Regulation

Interest Rate Options in India

The Reserve Bank on June 14, 2018 permitted Interest Rate Swaptions in Rupees so as to enable better timing flexibility for the market participants seeking to hedge their interest rate risk. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11302&Mode=0)

Foreign Exchange Management

Monthly Reporting of ECBs

The Reserve Bank on June 7, 2018 decided to capture the details of the hedges for External Commercial Borrowings (ECBs) through a simplified format of ECB 2 Return. Further, for reporting in respect of natural hedge, provisions should be followed. Revised monthly reporting format of ECB 2 Return is applicable from month-end June 2018. It is reiterated that any lapse at the time of reporting through this return and / or failure to adhere to the time line of its submission and/or any lapse at the time of reporting is a contravention of the provisions of Foreign Exchange Management Act, 1999. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11296&Mode=0)

Harmonisation of Data and Definition under LRS

In the context of remittances allowed under Liberalised Remittance Scheme (LRS) for maintenance of close relatives, the Reserve Bank on June 19, 2018 in consultation with Government, decided to align the definition of 'relative' with the definition given in Companies Act, 2013 instead of Companies Act, 1956.

Under extant guidelines Permanent Account Number (PAN), which hitherto was not to be insisted upon while putting through permissible current account transactions of up to USD 25000, shall now be mandatory for making all remittances under LRS. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11309&Mode=0)

Non-Banking Regulation

Investment in Units of an InvIT by Sponsor CIC-NDSI

In order to enable systemically important core investment companies (CIC-ND-SI) to act as a sponsor of Infrastructure Investment Trust (InvIT), the Reserve Bank on June 7, 2018 permitted CIC-ND-SIs to hold InvIT units only as sponsors. Exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by Securities and Exchange Board of India (SEBI) (Infrastructure Investment Trusts) Regulations, 2014. The above holdings of InvIT units shall be reckoned as investments in equity shares in group companies, for the purpose of compliance with the norms. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11292&Mode=0)

Government and Bank Accounts

Customer Service provided by Agency Banks

The Reserve Bank on June 21, 2018, advised all agency banks disbursing pension to provide considerate and sympathetic customer service to the pensioners, especially to those pensioners who are of old age.

The Reserve Bank has been receiving complaints from various quarters that pensioners are not being treated with due consideration by bank officials, specifically the aged pensioners, when they come to the branches for pension related transactions.

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11310&Mode=0)

RBI Kehta Hai

Film on Customer Liability in Unauthorised Electronic Banking Transactions

As a part of the Reserve Bank's public awareness initiative, video spots are being aired during the FIFA World Cup matches, on Sony Ten, explaining how to limit one's loss in case of an unauthorised electronic transaction in bank account. The film on 'Customer Liability in Unauthorised Electronic Banking Transactions' is available on the YouTube channel (https://youtu.be/3XtvBgWyCCI) and on the RBI website (www.rbi.org.in). To make the impact more effective, the Reserve Bank has also issued an advertisement on 'Limited Liability' in print media across the country.

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