

MONETARY & CREDIT INFORMATION REVIEW



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I. Monetary Policy

Resolution of the MPC

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting held on June 04, 2021 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions 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. To read more, please click [here](#).

Statement on Developmental and Regulatory Policies

Liquidity Measures

□ *On-tap Liquidity Window for Contact-intensive sectors* – To open an on-tap liquidity window of ₹50,000 crore with tenors of up to three years at the repo rate till March 31, 2022 to boost provision of immediate liquidity for ramping up COVID-related healthcare infrastructure and services in the country. It has also been decided to open a separate liquidity window of ₹15,000 crore with tenors of up to three years at the repo rate till March 31, 2022 for certain contact-intensive sectors.

□ *Special Liquidity Facility to Small Industries Development Bank of India (SIDBI)* – In order to meet MSMEs (Micro, Small and Medium Enterprises) short- and medium-term credit needs to kick start the investment cycle with additional focus on smaller MSMEs and businesses including those in credit deficient and aspirational districts, it has been decided to provide a further special liquidity facility of ₹16,000 crore to SIDBI.

Regulation and Supervision

□ *Enhancement of the Exposure Thresholds under Resolution Framework 2.0* – The Resolution Framework 2.0 announced by the Reserve Bank on May 5, 2021 stipulates a maximum aggregate exposure of ₹25 crore for considering resolution of COVID-19 related stress of [MSMEs](#) as well as [non-MSME small businesses, and loans to individuals for business](#) purposes. It has been decided to enhance the above exposure threshold to ₹50 crore.

Financial Markets

□ *Placement of Margins for Government Securities Transactions on behalf of Foreign Portfolio Investor (FPIs)* – To permit authorised dealer banks to place margins on behalf of their FPI clients for their transactions in Government securities, within the credit risk management framework of banks.

□ *Facilitating Flexibility in Liquidity Management by issuers of Certificates of Deposit (CDs)* – To permit Regional Rural Banks (RRBs) to issue CDs to eligible investors. With a view to providing issuers with greater flexibility in liquidity management, all issuers of CDs will be permitted to buy back their CDs before maturity, subject to certain conditions.

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Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of June in the world of money and credit. MCIR can be accessed at <https://mcir.rbi.org.in> as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at mcir@rbi.org.in

Yogesh Dayal
Editor

Payment Systems

❑ *Availability of National Automated Clearing House (NACH) on all days of the week* - In the interest of customer convenience, and to take advantage of the availability of RTGS on all days of the year, it is proposed to make available NACH on all days of the week throughout the year, effective August 01, 2021. To read the full statement, please click [here](#).

Minutes of the MPC Meeting

The Reserve Bank on June 18, 2021 placed in the public domain the minutes of the twenty ninth meeting of the Monetary Policy Committee (MPC) held during June 02 to 04, 2021. All members of the MPC – Dr. Shashanka Bhide, Dr. Ashima Goyal, Prof. Jayanth R. Varma, Dr. Mridul K. Sagar, Dr. Michael Debabrata Patra and Shri Shaktikanta Das – unanimously voted to keep the policy repo rate unchanged and to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. To read the full minutes, please click [here](#).

II. Regulation

Resolution Framework - 2.0: Individuals and Small Businesses

The Reserve Bank on June 04, 2021 enhanced the limits specified under the circular on "Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses" from ₹25 crore to ₹50 crore. The circular specifies the eligible borrowers who may be considered for resolution under the framework as follows:

- ❑ Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021.
- ❑ Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSME as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021. To read more, please click [here](#).

Resolution Framework - 2.0: MSMEs

The Reserve Bank on June 04, 2021 enhanced the limit specified under the circular on "Resolution Framework 2.0 – Resolution of COVID-19 related stress of MSMEs" from ₹25 crore to ₹50 crore. The circular specifies the eligibility conditions for MSME accounts to be considered for restructuring under

accounts to be considered for restructuring under the framework, which states that the aggregate exposure, including non-fund based facilities, of all lending institutions to the MSME borrower should not exceed ₹25 crore as on March 31, 2021. To read more, please click [here](#).

Consultative Document

The Reserve Bank on June 14, 2021 released the Consultative Document on Regulation of Microfinance for feedback from all stakeholders. The key proposals of the Consultative Document are enumerated below:

- ❑ A common definition of microfinance loans for all regulated entities;
- ❑ Capping the outflow on account of repayment of loan obligations of a household to a percentage of the household income;
- ❑ A Board approved policy for household income assessment;
- ❑ No pre-payment penalty; no requirement of collateral; and greater flexibility of repayment frequency for all microfinance loans;
- ❑ Alignment of pricing guidelines for NBFC-MFIs with guidelines for NBFCs;
- ❑ Introduction of a standard simplified fact sheet on pricing of microfinance loans for better transparency;
- ❑ Display of minimum, maximum and average interest rates charged on microfinance loans on the websites of regulated entities;

Comments/observations/suggestions on the Consultative Document, are invited from banks, NBFCs including NBFC-MFIs, industry associations and other stakeholders which may be submitted latest by July 31, 2021. To read more, please click [here](#).

Gold (Metal) Loans

The Reserve Bank on June 23, 2021 notified all scheduled commercial banks that as per the extant instructions, nominated banks authorized to import gold and designated banks participating in [Gold Monetization Scheme, 2015 \(GMS\)](#) can extend Gold (Metal) Loans (GML) to jewellery exporters or domestic manufacturers of gold jewellery. On a review, the Reserve Bank has decided as under:

- i) Banks shall provide an option to the borrower to repay a part of the GML in physical gold in lots of one kg or more, provided;
- ❑ The GML has been extended out of locally sourced / GMS-linked gold;
 - ❑ Repayment is made using locally sourced IGDS (India Good Delivery Standard)/ LGDS (LBMA's Good Delivery Standards) gold;
 - ❑ Gold is delivered on behalf of the borrower to the bank directly by the refiner or a central agency, acceptable to the bank, without the borrower's involvement;

□ The loan agreement contains details of the option to be exercised by the borrower, acceptable standards and manner of delivery of gold for repayment;

□ The borrower is apprised upfront, in a transparent manner, of the implications of exercising the option;

ii) Banks shall suitably incorporate the above aspects into the board-approved policy governing GML along with concomitant risk management measures. Banks shall continue to monitor the end-use of funds lent under GML. To read more, please click [here](#).

Declaration of Dividends

The Reserve Bank on June 24, 2021 prescribed guidelines on distribution of dividend by NBFCs, in order to infuse greater transparency and uniformity in practice. The guidelines are as below:

□ The guidelines shall be applicable to all NBFCs regulated by the Reserve Bank.

□ The guidelines shall be effective for declaration of dividend from the profits of the financial year ending March 31, 2022 and onwards.

□ The Board of Directors shall, while considering the proposals for dividend, take into account the supervisory findings of the Reserve Bank (National Housing Bank for HFCs) on divergence in classification and provisioning for non-performing assets (NPAs), qualifications in the auditors' report to the financial statements; and long term growth plans of the NBFC. To read more, please click [here](#).

Appointment of Chief Risk Officer

The Reserve Bank on June 25, 2021 decided that all primary (Urban) co-operative banks (UCBs) having asset size of ₹5000 crore or above, shall appoint a Chief Risk Officer (CRO). UCBs were advised to strictly adhere to the following instructions in this regard:

□ The CRO shall be a senior official in the bank's hierarchy and shall have adequate professional qualification / experience in the area of risk management.

□ The CRO shall be appointed for a fixed tenure with the approval of the Board.

□ The Board shall put in place adequate policies to safeguard the independence of the CRO.

□ The CRO shall not have any reporting relationship with the business verticals and shall not be given any business targets.

□ In UCBs that follow committee approach in credit sanction process for high value proposals.

□ If the CRO is one of the decision makers in the credit sanction process, he/she shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

□ In UCBs which do not follow committee approach for sanction of high value credits, the CRO can only be an adviser in the sanction process and shall not have any sanctioning power.

□ All credit products shall be vetted by the CRO from the angle of inherent and control risks. To read more, please click [here](#).

III. Foreign Exchange

Payment of Margins by FPIs

The Reserve Bank on June 04, 2021 decided to allow banks in India having an authorised dealer category-1 licence under FEMA, 1999 to lend to foreign portfolio investors (FPIs) in accordance with their credit risk management frameworks for the purpose of placing margins with The Clearing Corporation of India Ltd. (CCIL) in respect of settlement of transactions involving government securities (including treasury bills and state development loans) by the FPIs. To read more, please click [here](#).

IV. Payment and Settlement Systems

ATMs/Cash Recycler Machines

After comprehensively examining the recommendations of the Committee constituted on June 2019 to review the entire gamut of Automated Teller Machine (ATM) charges and fees with particular focus on interchange structure for ATM transactions, the Reserve Bank on June 10, 2021 decided as under:

□ Allow increase in interchange fee per transaction from ₹15 to ₹17 for financial transactions and from ₹5 to ₹6 for non-financial transactions in all centres.

□ Customers are eligible for five free transactions (inclusive of financial and non-financial transactions) every month from their own bank ATMs. They are also eligible for free transactions (inclusive of financial and non-financial transactions) from other bank ATMs viz. three transactions in metro centres and five transactions in non-metro centres.

□ Applicable taxes, if any, shall be additionally payable.

□ These instructions shall also apply, mutatis mutandis, to transactions done at Cash Recycler Machines (other than for cash deposit transactions). To read more, please click [here](#).

BBPS - Addition of Biller Category

The Reserve Bank on June 14, 2021 permitted 'mobile prepaid recharges' as a biller category in Bharat Bill Payment System (BBPS), on a voluntary

basis. BBPS, started as an interoperable platform for repetitive bill payments, which covered bills of five categories, such as Direct to Home (DTH), electricity, gas, telecom and water. The system provided standardised bill payment experience, centralised customer grievance redressal mechanism, prescribed customer convenience fee and ensured availability of a bouquet of anytime, anywhere digital payment options. The scope and coverage of BBPS was expanded to include all categories of billers which raise recurring bills (except mobile prepaid recharges) as eligible participants, on a voluntary basis. To read more, please click [here](#).

V. Research

Award for Writing Books in Hindi

The Reserve Bank on June 03, 2021 launched an 'Award scheme for writing books originally in Hindi on Economics/Banking/Financial subjects' with a view to encourage original writings and research in Banking Hindi. Working/retired professors (including Assistant and Associates, etc.) of Indian Universities (UGC recognised) may be awarded three prizes of ₹1,25,000.00 each for writing books originally in Hindi on Economics/Banking/Financial subjects. To read more, please click [here](#).

RBI-Occasional Papers

The Reserve Bank on June 11, 2021 released Volume 41, No.2, 2020 of its Occasional Papers, a research journal containing contributions from its staff. This issue contains four articles and two book reviews.

Articles:

Macroeconomic Implications of Bank Capital Regulations

In this article, Shri Ranajoy Guha Neogi and Shri Harendra Behera examine the role of regulatory bank capital in influencing credit flows and GDP growth. To read the full article, please click [here](#).

Education Loan NPAs in Tamil Nadu: Issues and Challenges

In this article, Ms Shromona Ganguly and Ms Deepa S. Raj study the determinants of default in education loans in Tamil Nadu. They use account level data of over two lakh borrowers from two public sector banks and one private sector bank in an attempt to identify significant predictors of default. To read the full article, please click [here](#).

An Alternative Measure of Economic Slack to Forecast Core Inflation

In this article, Shri Saurabh Sharma and Ms Ipsita Padhi propose an alternative indicator of economic slack using a variety of high frequency indicators. To read the full article, please click [here](#).

Long Run Saving - Investment Relationship in India

In this article, Shri Bichitrananda Seth, Shri Kunal Priyadarshi and Shri Avdhesh Kumar Shukla revisit the Feldstein-Horioka Puzzle, that is, close association between domestic savings and investment rates notwithstanding growing openness to cross-border capital flows, which is still observed to hold across advanced economies and emerging markets. To read the full article, please click [here](#).

Book Reviews:

Shri Rasmii Ranjan Behera reviews the book "Firefighting: The Financial Crisis and its Lessons" written by Ben S. Bernanke, Timothy F. Geithner and Henry M. Paulson, Jr. The book provides an excellent narration of the 2008 global financial crisis and the way it was managed. To read the full book review, please click [here](#).

Ms Priyanka Upreti reviews the book "Agricultural Growth and Rural Poverty Reduction in India" written by Seema Bathla, Pramod Kumar Joshi and Anjani Kumar. The book has measured the relationship between public and private investment in agriculture and assessed the impact on farm productivity, income and poverty alleviation. To read the full book review, please click [here](#).

VI. Data Releases

Important Data Releases by the Reserve Bank in the month of June, 2021:

	Data Release
1	Monthly Data on India's International Trade in Services for the Month of April 2021
2	RBI releases the results of forward looking Surveys
3	Overseas Direct Investment for May 2021
4	All-India House Price Index (HPI) for Q4:2020-21
5	Preliminary Estimates of Household Financial Savings for Q3: 2020-21 and Household Debt-GDP Ratio at end-December 2020
6	RBI releases 'Quarterly BSR-1: Outstanding Credit of Scheduled Commercial Banks for March 2021'
7	Developments in India's Balance of Payments during the Fourth Quarter (January-March) of 2020-21
8	Sources of Variation in Foreign Exchange Reserves in India during 2020-21