R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2012-14

Monetary and Credit Information Review

MCIR

Volume XIV ♦ Issue 7 ♦ January 31, 2019

Banking Regulation

Restructuring of Advances to MSME Sector

The Reserve Bank on January 1, 2019 issued guidelines on restructuring of advances to Micro, Small and Medium Enterprises (MSMEs). As per the guidelines, lenders will be allowed a one-time restructuring of existing loans to MSMEs that are in default but 'standard' as on January 1, 2019, without an asset classification downgrade. To be eligible for the scheme, the aggregate exposure, including non-fund based facilities of banks and NBFCs, to a borrower should not exceed ₹250 million as on January 1, 2019. The restructuring has to be implemented by March 31, 2020. A provision of 5% in addition to the provisions already held, is to be made in respect of accounts restructured under this scheme. Each Bank/NBFC should formulate a policy for this scheme with Board approval which would, include framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts. Furthermore, post-restructuring, NPA classification of these accounts shall be as per the extant Income Recognition and Asset Classification(IRAC) norms. Banks and NBFCs are required to make appropriate disclosures in their financial statements. All other instructions applicable to restructuring of loans to MSME borrowers would continue to be applicable.

The guidelines were released with the objective of facilitating a meaningful restructuring of MSME accounts that have become stressed. The issue of restructuring of MSME accounts was discussed in the meeting of the Central Board of RBI on November 19, 2018. The matter was also discussed during RBI's recent interactions with the banks and other stakeholders. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45879)

Basel III Capital Regulations

The Reserve Bank on January 10, 2019, decided to defer the implementation of the last tranche of 0.625% of Capital Conservation Buffer (CCB) from March 31, 2019 to March 31, 2020. Accordingly, minimum capital conservation ratios, as applicable from March 31, 2018 will also apply from March 31, 2019 till the CCB attains the level of 2.5% on March 31, 2020. The pre-specified trigger for loss absorption through conversion/write-down of additional Tier 1 instruments (Perpetual Non-Cumulative Preference Shares (PNCPS) and Perpetual Debt Instruments (PDI)) shall remain at 5.5% of Risk Weighted Assets(RWAs) and will rise to 6.125% of RWAs on March 31, 2020. The details are available in 4.5 'Transitional Arrangements', para 15.2.2 of Part D 'Capital Conservation Buffer Framework' and para 2.3 of Annex 16 of the Master Circular, DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on 'Basel III Capital Regulations'.(https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9859)

Interest Equalisation Scheme

The Reserve Bank on January 11, 2019 permitted merchant exporters, an interest equalisation at the rate of 3% on credit for export of products covered under 416 tariff lines under Government of India's ongoing Interest Equalisation Scheme for Pre and Post Shipment Rupee Export Credit. This will come into effect from January 2, 2019. Operational instructions for the scheme are contained in the RBI circular on Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit issued vide (https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=10159); (https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=10281) and (https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11421)

Amendments to the Gold Monetization Scheme, 2015

The Reserve Bank on January 9, 2019, in exercise of the powers conferred under Section 35A of the Banking Regulation Act, 1949, amended the Reserve Bank of India Gold Monetization Scheme, 2015 with immediate effect. Under the amended scheme, Resident Indians [Individuals, HUFs, Proprietorship & Partnership firms, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations, companies, charitable institutions, Central Government, State Government or any other entity owned by the Central Government or State Government] can make deposits. Joint deposits of two or more eligible depositors are also allowed and the deposits in such case shall be credited to the joint deposit account opened in the name of such depositors. The existing rules regarding joint operation of bank deposit accounts including nominations will be applicable to these gold deposits. The Reserve Bank of India Master Direction No.DBR.IBD.No.45/23.67.003/2015-16 dated October 22, 2015 on Gold Monetization Scheme, 2015 has been updated incorporating the above changes. (https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10084&Mode=0)

Payment and Settlement System

Tokenisation of Card Transactions

In its continuous endeavour to provide higher security in payment systems, the Reserve Bank on January 1, 2019, released guidelines on tokenisation of debit, credit and prepaid card transactions. These guidelines allow authorised card payment networks to provide tokenisation services to any token requestor or third-party app providers subject to conditions. For now, the facility will be offered through mobile phones and tablets only and its extension to other devices will be examined later. All extant instructions of the Reserve Bank on safety and security of card transactions, including the mandate for Additional Factor of Authentication (AFA) and PIN entry shall be applicable to tokenised card transactions. The ultimate responsibility for card tokenisation services rendered will rest with authorised card networks. Payment Card network operators will have to put in place a mechanism for periodic system audit by empanelled auditors of Indian Computer Emergency Response Team (CERT-In) and related RBI instructions pertaining to system audits also need to be adhered to. Tokenisation involves a process in which a unique token can be used to perform card transactions instead of sharing sensitive credentials of payment cards. This provides for secure and contactless transactions at Point of Sale (POS) terminals, Quick Response (QR) code payments, etc. No charges shall be recovered from the customer for availing this service. (https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11449)

Policy Paper on New Retail Payment Systems

Reserve Bank of India placed a policy paper on its website titled 'Authorisation of New Retail Payment Systems' for public comments on January 21, 2019. The RBI has invited comments from all stakeholders and members of the public by February 20, 2019. The comments may be sent by post to the Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India, Central Office, 14th Floor, Shahid Bhagat Singh Marg, Mumbai-400001, or by email at dpssfeedback@rbi.org.in.

In the statement on Developmental and Regulatory Policies released with the Second Bi-monthly Monetary Policy Statement 2018-19, the Reserve Bank had announced its intent on bringing out a policy paper for public consultation to minimize the concentration risk in the retail payments market, from a financial stability perspective and to give a fillip to innovation and competition. (https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=918)

Foreign Exchange Management

New External Commercial Borrowings Framework

In its endeavour to promote 'Ease of Doing Business', the Reserve Bank simplified the External Commercial Borrowing (ECB) norms on January 16, 2019. Accordingly, a new framework for ECBs has been put in place with immediate effect.

The salient features of the new ECB framework are:

(i) Merging of Tracks: Merging of Tracks I and II as "Foreign Currency denominated ECB" and merging of Track III and Rupee Denominated Bonds framework as "Rupee Denominated ECB". Uniform ceiling of $750mn for borrowing as against sector-wise limits previously.

(ii) Eligible Borrowers: This has been expanded to include all entities eligible to receive FDI. Additionally, Port Trusts, Units in SEZ, SIDBI, EXIM Bank, registered entities engaged in micro-finance activities, viz., registered not for profit companies, registered societies/trusts/cooperatives and non-government organisations can also borrow under this framework.

(iii) Recognised Lender: The lender should be a resident of Financial Action Task Force (FATF) or International Organization of Securities Commissions (IOSCO) compliant country. Multilateral and Regional Financial Institutions, individuals and foreign branches/ subsidiaries of Indian banks can also be lenders.

(iv) Minimum Average Maturity Period (MAMP): MAMP will be 3 years for all ECBs. However, for ECB raised from foreign equity holder and utilised for specific purposes, the MAMP would be 5 years. Similarly, for ECB up to $ 50 million per financial year raised by manufacturing sector, which has been given a special dispensation, the MAMP would be 1 year.

(v) Late Submission Fee (LSF) for delay in Reporting: Any borrower, who is otherwise in compliance of ECB guidelines, except for delay in reporting drawdown of ECB proceeds before obtaining LRN or Form ECB 2 returns, can regularize the delay by payment of LSF as per the laid down procedure. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46031)

Committees

Expert Committee on MSMEs

The Reserve Bank of India, on January 2, 2019, constituted an expert committee on Micro, Small and Medium Enterprises, as per announcement made in the Fifth Bi-Monthly Monetary Policy Statement for 2018-19, dated December 5, 2018. The committee is chaired by Shri U.K. Sinha, former chairman, Securities and Exchange Board of India. Other members include, Shri Ram Mohan Mishra, Additional Secretary and Development Commissioner of MSMEs, Shri Pankaj Jain, Joint Secretary, Department of Financial Services, Ministry of Finance, Shri P. K. Gupta, Managing Director, SBI, Shri Anup Bagchi, Executive Director, ICICI Bank, Shri Abhiman Das, Professor, IIM- Ahmedabad, Shri Sharad Sharma, Co-founder, iSpirit Foundation and Ms. Bindu Ananth, Chair, Dvara Trust. The expert committee would review the current institutional framework to support the MSME sector, study the impact of

RBI Kehta Hai

As a part of the Reserve Bank's public awareness drive, the Department of Communication, Central Office aired three films on Sony TV's immensely popular entertainment programme 'Kaun Banega Crorepati' (KBC). The actors enacting the characters are the employees of the Reserve Bank and the films are available on the Bank's YouTube channel for viewing. One of the three films are on Basic Savings Bank Deposit Account (BSBDA) and the other two are on good practices for 'Safe Digital Banking'. The anchor of the show Amitabh Bachchan also personally voiced messages during the latest season of KBC.

recent economic reforms on the MSME sector and identify the structural problems affecting its growth, examine the factors affecting timely and adequate availability of finance, study global best practices, review existing MSME focussed policies and propose measures to leverage technology in accelerating growth and long-term solutions for the economic and financial sustainability of the MSME sector. The expert committee is likely to submit its report by the end of June 2019. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45898)

Considering the importance of MSMEs in the Indian economy, it is essential to understand the structural bottlenecks and factors affecting the performance of MSMEs. It has, therefore, been considered necessary that a comprehensive review is undertaken to identify causes and propose long term solutions, for the economic and financial sustainability of the MSME sector.

Committee on Deepening of Digital Payments

With a view to encourage digitisation of payments and enhance financial inclusion through digitization, the Reserve Bank on January 8, 2019, constituted a high-level committee on "Deepening of Digital Payments" under the chairmanship of Shri Nandan Nilekani, former Chairman, UIDAI. Other members of the committee are Shri H.R. Khan, former Deputy Governor, Reserve Bank of India, Shri Kishore Sansi, former Managing Director and Chief Executive Officer, Vijaya Bank, Smt. Aruna Sharma, former Secretary, Ministry of Information and Technology and Steel and Shri Sanjay Jain, Chief Innovation Officer, Centre for Innovation, Incubation and Entrepreneurship (CIIE), IIM, Ahmedabad. The high-level committee has been formed with the objective of accelerating digitisation of the economy and promote financial inclusion through digitisation. It will review the existing status of digitisation of payments in the country while identifying the current gaps in the ecosystem and also suggest ways to bridge them. The committee will also undertake cross country analyses to identify and adopt global best practices to strengthen the safety and security of digital payments and provide a road map for increasing customer confidence and trust while accessing financial services through digital modes. It is likely to submit its report within three months from the date of its first meeting. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45949)

Surveys

Survey on Foreign Collaboration in Indian Industry

The Reserve Bank released the results of the 12th round of the biennial survey on Foreign Collaboration in Indian Industry covering the financial years 2016-17 and 2017-18, on its website on January 28, 2019.

Highlights:

In the latest round of the survey, 877 Indian entities responded, of which, 334 companies reported 620 Foreign Technical Collaboration (FTC) agreements. Out of these 334 companies, 206 were foreign subsidiaries (single foreign investor holding majority equity) and 83 were foreign associates (foreign investors' equity holding ranging between 10-50 per cent). Thus, an overwhelming majority of the FTC companies also had overseas financial collaboration. Only eight companies had pure technical collaborations. Incidentally, 189 of the 334 FTC companies are common in relation to the previous survey round and 145 are new in the sample.

Over 80 per cent of the reported FTC agreements were in the manufacturing sector of which, motor vehicles, machinery and other equipment, chemicals and chemical products had a major share. Relative to the previous survey round, there is an increase in such agreement in the construction sector, the share of which in total output has been growing. The share of services sector in FTC agreements continues to be much lower than its share in the economy.

In terms of source country for technology transfer, Japan accounted for nearly a third of the FTC agreements followed by USA and Germany: these three partner countries together accounted for nearly 60 per cent of the reported FTC agreements. The UK, Italy, Republic of Korea and Switzerland were other major collaborators.

Nearly two-thirds of the FTC agreements involved know-how transfer by the foreign collaborator and another 11 per cent involved the use of trade-marks/brand names. Around half of the FTCs provided for royalty payment and some of them also had additional clauses for lump-sum technical fees. Only 16 per cent of the reported contracts were based on pure lump-sum technical fees payments.

Export restriction clauses are typically written into FTCs by foreign collaborators intending to protect their own markets. On the other hand, local collaborators often obtain exclusive rights on assets transferred under the agreement so that the foreign collaborator is restrained from transferring such assets to another local party. At the aggregate level, around 32 per cent of reported FTC agreements had export restriction clauses and nearly 37 per cent had provision for exclusive rights on assets transferred under the agreements.

Over a third of the FTC agreements in the manufacturing sector had export restriction clauses whereas it was less than 10 per cent for the services sector. In the manufacturing sector, the export-intensive rubber and plastic, fabricated metal products, motor vehicles, machinery and equipment sectors had lower export restriction clauses. In the case of Japan, which was the largest collaborator country, nearly 43 per cent of agreements had export restriction clauses.

Mint Street Memo No. 17

The Reserve Bank of India, placed on its website, the seventeenth release under the series 'Mint Street Memos (MSM)' titled "The Impact of Crude Price Shock on India's Current Account Deficit, Inflation and Fiscal Deficit" on January 4, 2019. The paper is authored by Shri Saurabh Ghosh and Shri Shekhar Tomar, Director and Manager (Research) in the Strategic Research Unit, Reserve Bank respectively.

The research paper looks at the quantitative impact of crude price shock on India's three major macro-stability indicators: Current Account Deficit, Inflation and Fiscal Deficit. Read more at (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45927)

The total value of production of the FTC reporting companies in the sample increased by 13.8 per cent in 2017-18 to 5,317 billion, of which, nearly 80 per cent related to the manufacturing sector.

Led by the manufacturing sector, exports and imports of FTC reporting companies increased by 10.5 per cent and 28.3 per cent, respectively, in 2017-18. At the aggregate level, the ratio of exports and imports to the value of production stood at 13.8 per cent and 18.9 per cent, respectively, with large inter-sectoral variations.

The average profitability of FTC reporting companies, measured by the ratio of gross profit to capital employed, moderated when compared to the previous two survey rounds. (https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=46121)

OBICUS-Q:3-2018-19

The Reserve Bank on January 8, 2019, launched the 44th round of Order Books, Inventories and Capacity Utilisation Survey (OBICUS) for the reference period October – December 2018 (Q3: 2018-19). RBI has been conducting the OBICUS of the manufacturing sector on a quarterly basis since 2008. The information collected in the survey includes quantitative data on new orders received during the reference quarter, backlog of orders at the beginning of the quarter, pending orders at the end of the quarter, total inventories with a breakup between work-in-progress (WiP) and finished goods (FG) inventories at the end of the quarter and item-wise production in terms of quantity and value during the quarter vis-à-vis the installed capacity from the targeted group. The level of capacity utilisation (CU) is estimated from these responses. The survey provides valuable input for monetary policy formulation. The survey findings are released on the website of the bank regularly. Company level data are treated as confidential and never disclosed. (https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45953)

Data Releases

Census on Foreign Liabilities and Assets

The Reserve Bank on January 28, 2019 released the provisional results of 2017-18 round of the annual Census on Foreign Liabilities and Assets of Indian direct investment companies that have cross-border liabilities and assets arising on account of Foreign Direct Investment (FDI) in India and/or Overseas Direct Investment(ODI). The main findings of the survey are:-

Nearly 96 per cent of the direct investment companies were unlisted and had a higher share of cross-border equity capital vis-à-vis listed companies; the share of ODI companies was relatively small.

Non-financial FDI companies accounted for over 95 per cent of all FDI companies and they reported higher foreign equity participation vis-a-vis financial FDI companies).

FDI investment increased by ₹4,333 billion, including revaluation of past investments, during 2017-18 to reach ₹28,246 billion in March 2018 at market value; the market value of ODI, on the other hand, increased by ₹252 billion and stood at ₹5,280 billion.

The ratio of inward to outward direct investment at market value increased to 5.3 per cent in March 2018 from 4.8 per cent a year ago. Equity participation accounted for 95 per cent of FDI and 76 per cent of ODI.

FDI companies witnessed a substantial increase in other investment liabilities, largely due to the increase in trade credit. Mauritius continued to be the largest source of FDI in India (19.7 per cent share at market value) followed by the USA, the UK, Singapore and Japan; in case of overseas investment by Indian companies, Singapore (17.5 per cent share at market value) was the major destination, followed by the Netherlands, Mauritius and the USA.

The manufacturing sector had a majority share in total FDI at market prices; 'Information and Communication Services' and 'Financial and Insurance activities' were other major recipients of FDI.

Total sales, including exports, of foreign subsidiaries in India, increased by 11.8 per cent during 2017-18; the growth in the purchase, including imports, was higher at 18.2 per cent).

31 per cent of total sales of foreign subsidiaries in India were in terms of exports whereas the share of imports in their purchases stood higher at 38 per cent.

In case of overseas subsidiaries of Indian companies, exports accounted for 37 per cent of total sales during 2017-18, whereas imports had a much higher share of 63 per cent in their total purchases.

The purchase-to-sales ratio of overseas subsidiaries of Indian companies stood at 83.3 per cent vis-à-vis 63.2 per cent in case of foreign subsidiaries in India, indicating a divergence in their activity focus areas and pattern of value addition. (https://rbi.org.in/scripts/PublicationsView.aspx?Id=18774)

Basic Statistical Returns of SCBs

The Reserve Bank on January 3, 2019, released the web publication 'Basic Statistical Returns of Scheduled Commercial Banks (SCBs) in India – Volume 47'. The web publication was released on its Database on Indian Economy (DBIE) portal (web-link: https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9). The publication provides information on various characteristics of bank deposits and credit, based on branch level data collected through the Basic Statistical Returns (BSR) 1 & 2 annually.

Basic Statistical Returns-1 collects information on the type of account, organisation, occupation/activity, the category of the borrower, district and population group of the place of utilisation of credit; the rate of interest, credit limit and amount outstanding.

Branch-wise data on the type of deposits, maturity pattern of term deposits as well as the number of employees are reported by SCBs under Basic Statistical Returns-2. (https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=45909)

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