

MONETARY & CREDIT INFORMATION REVIEW

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I. Monetary Policy

Resolution of the Monetary Policy Committee

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting held on August 5, 2022 decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.40 per cent with immediate effect.

Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.15 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.65 per cent.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

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

This Statement sets out various developmental and regulatory policy measures relating to (i) Regulation and Supervision; (ii) Financial Markets; and (iii) Payment and Settlement systems.

I. Regulation and Supervision

1) *Master Direction on Managing Risks and Code of Conduct in Outsourcing of Financial Services:*

The Reserve Bank has issued several guidelines/directions from time to time, to Scheduled Commercial Banks (excluding Regional Rural Banks (RRBs)), Non-Banking Finance Companies (NBFCs), Housing Finance Companies and co-operative banks, on managing risks in outsourcing financial services. However, to update and harmonise the extant guidelines, adopt and incorporate global best practices as also enable Regulated Entities (REs) to have all current instructions on outsourcing of financial services at one place for reference, the Reserve Bank proposes to issue draft Reserve Bank of India (Managing Risks and Code of Conduct in Outsourcing of Financial Services) Directions, 2022 for public comments shortly. The scope of these Directions is being expanded to also include RRBs, Local Area Banks, All India Financial Institutions, Credit Information Companies, and non-scheduled Payments Banks.

2) *Inclusion of Credit Information Companies under the Reserve Bank - Integrated Ombudsman Scheme, 2021 and Extending the Internal Ombudsman Mechanism:*

In order to make the RB-IOS more broad based, it has been decided to bring Credit Information Companies (CICs) under the ambit of Reserve Bank-Integrated Ombudsman Scheme, 2021 which will provide a cost free alternate redress mechanism to customers of REs for grievances against CICs. Further, with a view to strengthen the internal grievance redress of the CICs and to make it more efficient, it has also been decided to bring the CICs under the Internal Ombudsman framework.

II. Financial Markets

3) *Standalone Primary Dealers – expansion in scope of permitted activities*

Standalone Primary Dealers (SPDs) are permitted to undertake foreign currency business for limited purposes. With a view to strengthen the role of SPDs, on par with banks operating primary dealer business, it is proposed to enable SPDs to offer all foreign exchange market-making facilities as currently permitted to Category-I Authorised Dealers, subject to prudential guidelines.

4) *Permitting Standalone Primary Dealers to Deal in offshore Foreign Currency Settled Overnight Indexed Swap Market*

It has been decided that SPDs authorised under section 10(1) of FEMA, 1999 will be permitted to undertake Foreign Currency Settled Overnight Indexed Swap transactions directly with non-residents and other market-makers.

5) *Committee on Mumbai Interbank Outright Rate Benchmark*

The usage of MIBOR-based derivative contracts has increased with steps taken by the Reserve Bank. It is proposed to set up a committee to undertake an in-depth examination

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Note from the Editor

Welcome to another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the Reserve Bank helps keep abreast with new developments and important policy initiatives taken by the Reserve Bank during the month of August 2022 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

of the MIBOR benchmark rate including the need for transition to an alternate benchmark.

III. Payment and Settlement System

6) Enabling Bharat Bill Payment System to Process Cross-Border Inbound Bill Payments

To facilitate non-resident Indians undertake utility, education and other bill payments on behalf of their families in India, it is proposed to enable Bharat Bill Payment System (BBPS) to accept cross-border inward payments. This will also benefit payment of bills of any biller onboarded on the BBPS platform in an interoperable manner. To read more, please click [here](#).

Minutes of the MPC Meeting

The 37th meeting of the MPC, constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held during August 3 to 5, 2022. As per Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank published the minutes of the proceedings of the meeting, on the 14th day after the meeting of the MPC. To read more, please click [here](#).

597th Meeting of Central Board

The 597th meeting of the Central Board of Directors of the Reserve Bank was held on August 26, 2022 at Jaipur under the Chairmanship of Shri Shaktikanta Das, Governor.

Deputy Governors Shri Mahesh Kumar Jain, Dr. Michael Debabrata Patra, Shri M. Rajeshwar Rao, Shri T. Rabi Sankar and other Directors of the Central Board namely, Shri Satish K. Marathe, Shri S. Gurumurthy, Ms Revathy Iyer, Prof. Sachin Chaturvedi, Shri Anand Gopal Mahindra, Shri Venu Srinivasan, Shri Pankaj Ramanbhai Patel and Dr. Ravindra H. Dholakia attended the meeting.

The Board in its meeting reviewed the current economic situation, global and domestic challenges including the overall impact of current global geopolitical crises.

Non-official Directors on the Central Board

The Central Government has re-nominated Shri Satish Kashinath Marathe and Shri Swaminathan Gurumurthy as part-time, non-official Directors on the Central Board of Reserve Bank of India for a further period of four years with effect from August 11, 2022, or until further orders, whichever is earlier.

The Central Government has re-nominated Ms Revathy Iyer and Prof. Sachin Chaturvedi as part-time, non-official Directors on the Central Board of Reserve Bank of India for a further period of four years after completion of their present tenure on September 18, 2022, or until further orders, whichever is earlier.

II. Regulation

Change in Bank Rate

The Reserve Bank on August 5, 2022 announced in the monetary policy statement 2022-23 that the Bank Rate is revised upwards by 50 basis points from 5.15 per cent to 5.65 per cent with immediate effect. To read more, please click [here](#).

Gold Monetisation Scheme, 2015

The Reserve Bank on August 4, 2022 made amendments to the Reserve Bank of India Gold Monetisation Scheme, 2015 under Section 35A of the

Banking Regulation Act, 1949 with immediate effect. The sub-para 2.2.2.(vii) has been amended as: 'Central Government has decided that with effect from November 5, 2016, designated banks will be paid handling charges (including gold purity testing, refining, transportation, storage and any other relevant costs) for a new MLTGD at a flat rate of 1.5% and commission at the rate of 1% of the rupee equivalent of the amount of gold mobilised under the scheme until further notice. In case of renewal of deposits, as banks will not incur any expenses on purity testing, refining, transportation, storage and insurance the banks will only be given a fixed commission of 1% of the rupee equivalent to the amount of gold on the date of renewal towards their administrative and account maintenance cost.' To read more, please click [here](#).

Outsourcing of Financial Services

The Reserve Bank on August 12, 2022 advised regulated entities (REs) that the ultimate responsibility for their outsourced activities vests with them and they are responsible for the actions of their service providers including recovery agents. The Reserve Bank issued additional instructions to REs by extending the scope of the guidelines and limiting the hours for calling borrowers on phone for recovery of overdue loans. The REs, therefore, shall strictly ensure that they or their agents do not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts. To read more, please click [here](#).

Branch Authorisation Policy-Left Wing Extremism

The Reserve Bank had issued a list of 90 left-wing extremism (LWE) affected districts in the country based on the Government of India's notification. The Reserve Bank on August 22, 2022 advised the banks to follow the revised list of 70 LWE-affected districts as per the notification of the Government of India. To read more, please click [here](#).

Authorised Dealer Category-I License Eligibility

The Reserve Bank on August 8, 2022 decided that all the scheduled small finance banks (SFBs), after completion of at least two years of operations as Authorised Dealer (AD) Category-II, will be eligible for AD Category-I license, subject to compliance with the eligibility norms. To read more, please click [here](#).

New Place of Business-District Central Co-op Banks

The Reserve Bank on August 11, 2022 issued guidelines with details of the criteria and procedure for submission of application by District Central Co-operative Banks for opening a new place of business/installation of ATMs. To read more, please click [here](#).

III. Payment and Settlement Systems

Discussion Paper on Charges in Payment Systems

The Reserve Bank on August 17, 2022 released a discussion paper on 'Charges in Payment Systems' for public feedback. To ensure reasonable charges for payment services, it was considered to carry out a comprehensive review of the various charges levied in the payment systems and seek stakeholder feedback. The feedback received would be used to guide policies and intervention strategies. To read more, please click [here](#).

American Express Banking Corp-Restrictions

The Reserve Bank on August 24, 2022 lifted the business restrictions imposed on American Express Banking Corp. after satisfactory compliance on storage of payment system data. The restrictions were imposed vide order dated April 23, 2021, from on-boarding new domestic customers onto its card network from May 1, 2021. To read more, please click [here](#).

IV. Consumer Education and Protection

Reserve Bank-Integrated Ombudsman Scheme, 2021

The Reserve Bank on August 5, 2022 announced that the Reserve Bank - Integrated Ombudsman Scheme, 2021 shall be applicable to credit information companies (CICs) to provide an avenue for cost-free alternate grievance redress under the RBIOS 2021 for grievances against CICs. To read more, please click [here](#).

V. Foreign Exchange Management

External Commercial Borrowings Policy

The Reserve Bank on August 1, 2022 decided to increase the automatic route of external commercial borrowings (ECBs) limit from USD 750 million or equivalent to USD 1.5 billion or equivalent and to increase the all-in-cost ceiling for ECBs by 100 bps. The enhanced all-in-cost ceiling shall be available only to eligible borrowers of investment grade rating from Indian credit rating agencies (CRAs). To read more, please click [here](#).

Foreign Exchange Management (Overseas Investment) Regulations, 2022

The Reserve Bank on August 22, 2022 released Foreign Exchange Management (Overseas Investment) Regulations, 2022, in exercise of the powers conferred by sub-section (1) and clause (a) of sub-section (2) of section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999). To read more, please click [here](#).

The Reserve Bank on August 22, 2022 also issued Foreign Exchange Management (Overseas Investment) Directions, 2022 issued under Section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999), detailing operational instructions for application of new rules and regulations. To read more, please click [here](#).

VI. Financial Markets

Liquidity Adjustment Facility

The Reserve Bank on August 5, 2022 as announced in the monetary policy statement 2022-23, decided to increase the policy repo rate under the liquidity adjustment facility by 50 basis points from 4.90 per cent to 5.40 per cent with immediate effect. Consequently, the standing deposit facility rate and marginal standing facility rate stand adjusted to 5.15 per cent and 5.65 per cent respectively, with immediate effect. To read more, please click [here](#).

Rupee Interest Rate Derivatives (Reserve Bank) Directions

The Reserve Bank on August 8, 2022 issued Rupee Interest Rate Derivatives (Reserve Bank) Directions under

section 45W of the Reserve Bank of India Act, 1934 read with section 45U of the Act, under which stand-alone primary dealers (SPDs) in India, authorised under section 10(1) of FEMA, 1999 shall be eligible to offer Foreign Currency Settled Overnight Indexed Swaps (FCS-OIS) to persons not resident in India as well as to other AD Cat-I banks and eligible SPDs. To read more, please click [here](#).

VII. Financial Inclusion and Development

Credit Facilities to SCs, STs and Minority Communities

The Reserve Bank on August 1, 2022 issued a master circular on credit facilities to Scheduled Castes (SCs) and Scheduled Tribes (STs) consolidating a number of guidelines/instructions/circulars on the subject. To read the circular in detail, please click [here](#).

The Reserve Bank on August 2, 2022 issued a master circular on providing credit facilities to Minority Communities consolidating guidelines/instructions/directives on the subject, to ensure smooth flow of bank credit to minority communities. To read the circular in detail, please click [here](#).

VIII. RBI Publications

RBI Working Papers

The Reserve Bank published two publications under its working paper series in the month of August 2022.

i) The first working paper titled, 'Monetary Policy Transmission in India under the Base Rate and MCLR Regimes: A Comparative Study', is authored by Sadhan Kumar Chattopadhyay and Arghya Kusum Mitra. The paper estimates the degree of pass-through of monetary policy to bank lending rates under both the base rate and the marginal cost of funds based lending rate (MCLR) regimes. The study estimates that a 100 basis point increase in the policy rate leads to an increase in the weighted average lending rate on fresh rupee loans sanctioned by banks over the long run by 26-47 basis point - depending on the model specification - during the MCLR regime. To read the full working paper, please click [here](#).

ii) The second working paper titled 'SME Exchanges in India: Empirical Analysis of Firm Attributes and IPO Characteristics' is authored by Shromona Ganguly. The study throws light on some of the characteristics of SME exchanges in India in terms of underpricing, aftermarket liquidity and long-run abnormal returns. Firms listed in SME exchanges have higher profitability, liquidity and asset utilisation ratio as compared with other unlisted SMEs as well small firms listed in mainboards. SME IPOs preceded by a boom market period are more underpriced. To read the full working paper, please click [here](#).

Development Research Group Study

The Reserve Bank on August 19, 2022 released on its website the Development Research Group (DRG) Study titled, 'Governance, Efficiency and Soundness of Indian Banks'. The study is co-authored by Rachita Gulati, Sunil Kumar, S. Chinngaihljan, Rajendra Raghumanda and

Prabal Bilantu. The study adopts a granular research approach and empirically explores the nexus between governance, efficiency and soundness in the Indian banking industry at various disaggregation levels using the dynamic panel data models. To read about the key findings from the study, please click [here](#).

IX. RBI Bulletin

RBI Bulletin – August 2022

The Reserve Bank on August 18, 2022 released the August 2022 issue of its monthly bulletin. The bulletin includes Monetary Policy Statement, 2022-23, Resolution of the Monetary Policy Committee (MPC) August 3-5, 2022, two speeches, six articles and current statistics. The six articles are: i) State of the Economy; ii) Privatisation of Public Sector Banks: An Alternate Perspective; iii) A Steady Ship in Choppy Waters: An Analysis of the NBFC Sector in Recent Times; iv) Real-Time Monitoring of the Indian Economy; v) Private Corporate Investment: Growth in 2021-22 and Outlook for 2022-23; and vi) Exchange Rate Volatility in Emerging Market Economies.

I. State of the Economy

Global growth prospects have turned gloomier. Easing of supply chain pressures and the recent ebbing of commodity prices are providing some breather from record high inflation. In India supply conditions are improving. The onset of the festival season should boost consumer demand, including rural, also as sowing activity picks up. Robust central government capital outlays are supporting investment activity. Inflation has edged down, but its persistence at elevated levels warrants appropriate policy responses to anchor expectations going forward.

II. Privatization of Public Sector Banks: An Alternate Perspective

This article evaluates arguments for and against the privatisation of public sector banks (PSBs).

Highlights:

- Private sector banks (PVBs) are more efficient in profit maximization, whereas PSBs have done better in promoting financial inclusion.
- Labour cost efficiency is higher in PSBs in comparison to PVBs.
- Lending by PSBs is less procyclical than PVBs.
- The gradual approach to privatisation adopted by the government can ensure that a void is not created in fulfilling the social objective of financial inclusion.

III. A Steady Ship in Choppy Waters: An Analysis of the NBFC Sector in Recent Times

This article evaluates the performance of non-banking financial company (NBFC) sector in 2021-22.

Highlights:

- The consolidated balance sheet of the NBFC sector exhibited double digit growth in the quarter-ending December 2021.
- The gap between the spreads of AAA/AA- rated NBFC bonds began to reduce from January 2021 onwards, indicating growing market confidence in the sector.
- NBFCs continued to provide maximum credit to industrial sector followed by retail, and services sector.

IV. Real-Time Monitoring of the Indian Economy

This article attempts to construct weekly activity indices to track the latest developments in the economy, namely, i) a 7-indicator weekly activity index (WAI) and ii) a 15-indicator weekly diffusion index (WDI).

Highlights:

- WAI holds the potential to serve as a crucial input for policy makers.
- The 4-week and 13-week moving average (MA) of the WAI provide a preliminary nowcast of IIP and GDP growth.

V. Private Corporate Investment: Growth in 2021-22 and Outlook for 2022-23

This article provides an assessment of the progress on new projects.

Highlights:

- Announcement of new projects increased significantly during 2021-22 after the ebbing of the Covid-19 pandemic.
- Infrastructure sector continued to attract maximum capex, led by 'Power' and 'Road & Bridges' sectors.
- Total capex plan of the private corporate sector in 2021-22 recorded an increase.
- Of the total capex investment envisaged during 2021-22 more than one third is expected to be spent in 2022-23.

VI. Exchange Rate Volatility in Emerging Market Economies

This article analyses exchange rate volatility in select Emerging Market Economies (EMEs) vis-à-vis the US dollar since 2007, covering the major episodes of high volatility.

Highlights:

- An equal-weighted implied volatility index of select EME currencies has trended lower in high volatility episodes subsequent to GFC.
- The objective of containing INR's exchange rate volatility without reference to any explicit/implicit preset target/band has been met as reflected in various parameters such as realised volatility, volatility cone and intraday range.
- INR's volatility expectations have come down during 2007-2021. To read more, please click [here](#).

X. Data Releases

Important data releases by the Reserve Bank in the month of August 2022 are as follows:

S N	Title
1.	India's International Trade in Services: June 2022
2.	Data on ECB/FCCB/RDB: June 2022
3.	Consumer Confidence Survey : July 2022
4.	Households' Inflation Expectations Survey: July 2022
5.	Survey of Professional Forecasters– Results of the 77th Round
6.	Overseas Direct Investment: July 2022
7.	Quarterly Statistics on Deposits and Credit of SCBs: June 2022
8.	Sectoral Deployment of Bank Credit: July 2022