

MONETARY & CREDIT INFORMATION REVIEW

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MCIR



I. Monetary Policy

Governor's Monetary Policy Statement on August 10, 2023

As we celebrate India's 77th Independence Day in a few days, I am happy to note that the Indian economy is exuding enhanced strength and stability despite the massive shocks to global economy in recent years. Our economy has continued to grow at a reasonable pace, becoming the fifth largest economy in the world and contributing around 15 per cent to global growth. We have also made significant progress towards controlling inflation. Our banks remain healthiest in more than a decade with historically high levels of capital, declining levels of non-performing assets and rising profitability. Corporate balance sheets are robust, with lower leverage, improving debt servicing capacity and strong profitability. Lower current account deficit and ample capital flows have imparted strength to our external sector. The resultant accretion to forex reserves has provided a buffer against external shocks. Overall, India's strong macroeconomic fundamentals have laid the foundations for sustainable growth.

2. In a moment like this, we need to continue with our efforts to maintain macro-financial stability while pushing our growth frontier further. India is uniquely placed to benefit from the ongoing transformational shifts in global economy in the wake of geopolitical realignments and technological innovations. A large economy marching ahead with vast domestic demand, untapped resources and demographic advantages, India can become the new growth engine for the world.

Decisions and Deliberation of the Monetary Policy Committee (MPC)

3. The Monetary Policy Committee (MPC) met on 8th, 9th and 10th August 2023. After detailed deliberation on all relevant aspects, it decided unanimously to keep the policy repo rate unchanged at 6.50 per cent. Consequently, the standing deposit facility (SDF) rate remains at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. The MPC also decided by a majority of 5 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

4. Let me now explain the MPC's rationale for these decisions on the policy rate and the stance. Headline inflation, after reaching a low of 4.3 per cent in May 2023, rose in June and is expected to surge during July-August led by vegetable prices. While the vegetable price shock may reverse quickly, possible El Niño weather conditions along with global food prices need to be watched closely against the backdrop of a skewed south-west monsoon so far. These developments warrant a heightened vigil on the evolving inflation trajectory. The cumulative rate hike of 250 basis points undertaken by the MPC is working its way into the economy. Nonetheless, domestic economic activity is holding up well and is likely to retain its momentum, despite weak external demand. Considering this confluence of factors, the MPC decided to remain watchful and evaluate the emerging situation. Consequently, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent with preparedness to act, should the situation so warrant. The MPC remains resolute in its commitment to aligning inflation to the 4 per cent target and anchoring inflation expectations.

5. Further, with monetary transmission still underway and headline inflation remaining higher than the 4 per cent target, the MPC decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

Assessment of Growth and Inflation

Global Growth

6. The global economy continues to face daunting challenges of elevated inflation, high levels of debt, tight and volatile financial conditions, continuing geopolitical tensions, fragmentations and extreme weather conditions. Belying earlier apprehensions, a number of economies have demonstrated remarkable resilience and the grim prospects of hard landing appear to have receded. Nevertheless, global growth is likely to remain low by historical standards in the current year and next few years, despite the upward revision in the global growth forecast for 2023 by the IMF. World merchandise trade volume growth is projected by the WTO to decelerate from 2.7 per cent in 2022 to 1.7 per cent in 2023. Headline inflation is easing unevenly across countries and remains above the target in major economies. While the pace of monetary tightening has been scaled down, policy rates could stay higher for longer. Financial markets, which had been buoyed by expectations of an early end to the cycle of monetary tightening, have turned volatile with sizeable two-way movements in response to recent rating event and incoming data. To read the full speech, please click [here](#).



Contents

Sections	Page
I. Monetary Policy	1-3
II. Regulation	3-4
III. Payment and Settlement Systems	4
IV. Fintech	4
V. Financial Stability Analysis	4
VI. Publication	4
VII. Data Release	4

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 2023 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

Resolution of MPC

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on August 10, 2023 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent. The standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.

The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, 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) Financial Markets, ii) Regulation and Supervision, iii) Payment Systems and iv) FinTech.

i) Financial Markets

1. Review of Regulatory framework for Financial Benchmark Administrators

In June 2019, the Reserve Bank issued a regulatory framework on administration of 'significant benchmarks' by benchmark administrators in the financial markets regulated by the Reserve Bank such as the USD/INR Reference Rate, Overnight MIBOR and valuations of government securities administered by the Financial Benchmarks India Private Limited (FBIL). Considering the evolution of the domestic financial markets since then and global best practices, the regulations for financial benchmarks have been reviewed and it has been decided to put in place a comprehensive, risk-based framework covering administration of all benchmarks related to foreign exchange, interest rates, money markets and government securities such as benchmarks on certificate of deposits (CDs) rates, repo rates and FX Options Volatility Matrix as well as other benchmarks on government securities. Revised Directions which are being issued separately, envisage regulatory prescriptions for benchmark administrators, encompassing, inter alia, governance and oversight arrangements, conflict of interest, controls and transparency. These Directions will provide greater assurance about the accuracy and integrity of benchmarks.

ii) Regulation and Supervision

2. Review of Regulatory Framework for NBFC – Infrastructure Debt Funds (IDF-NBFCs)

Infrastructure Debt Fund was created as a separate category of NBFCs in 2011. To enable the IDFs to play a greater role in financing of the infrastructure sector and to move towards the regulatory objective of harmonisation of regulations applicable to various categories of NBFCs, a review of the extant regulatory framework for IDFs has been undertaken in consultation with the Government of India. The revised framework envisages –

- i) withdrawal of the requirement of a sponsor for the IDFs,
- ii) permission to finance Toll Operate Transfer projects (ToT) as direct lenders,

iii) access to ECBs and

iv) making tri-partite agreement optional for PPP projects.

3. Responsible Conduct in Lending: Greater transparency in Interest Rate Reset of Equated Monthly Instalments (EMI) based Floating Interest Loans

The supervisory reviews undertaken by the Reserve Bank and the feedback and references from members of public have revealed several instances of unreasonable elongation of tenor of floating rate loans by lenders without proper consent and communication to the borrowers. To address the issue, it is proposed to put in place a proper conduct framework to be implemented by all REs to address the issues faced by the borrowers. The framework envisages that lenders should clearly communicate with the borrowers for resetting the tenor and/or EMI, provide options of switching to fixed rate loans or foreclosure of loans, transparent disclosure of various charges incidental to the exercise of these options and proper communication of key information to the borrowers. The detailed guidelines in this regard shall be issued shortly.

4. Consolidation and harmonisation of instructions for Supervisory data submission

The Reserve Bank of India has, from time to time, issued several guidelines and instructions to its supervised entities (SEs), viz., SCBs, NBFCs, UCBs, AIFs, etc., for submission of supervisory returns. Certain issues are being faced by SEs while complying with these instructions due to changes in technology platforms, modes of submission and variations in the return submission timeframes.

In order to consolidate and harmonise the instructions for submission of applicable Supervisory Returns, provide greater clarity and reduce the compliance burden, it is proposed to consolidate all the existing instructions on submission of data into a single Master Direction which will be a single point of reference for all SEs.

iii) Payment Systems

5. Conversational payments in UPI

UPI, with its ease of usage, safety and security and real-time feature, has transformed the digital payment ecosystem in India. Addition of many new features over time have enabled UPI to facilitate diverse payment needs of the economy. As Artificial Intelligence (AI) is becoming increasingly integrated into the digital economy, conversational instructions hold immense potential in enhancing ease of use and consequently reach of the UPI system. It is, therefore, proposed to launch an innovative payment mode, viz., 'Conversational Payments' on UPI, that will enable users to engage in a conversation with an AI-powered system to initiate and complete transactions in a safe and secure environment. This channel will be made available in both smartphones and feature phones-based UPI channels, thereby helping in the deepening of digital penetration in the country. The facility will, initially, be available in Hindi and English and will subsequently be made available in more Indian languages. Instructions to NPCI will be issued shortly.

6. Offline payments in UPI

To increase the speed of small value transactions on UPI, an on-device wallet called 'UPI-Lite' was launched in September 2022 to optimise processing resources for banks, thereby reducing transaction failures. The product has gained traction and currently processes more than ten million transactions a month. To promote the use of UPI-Lite, it is proposed to facilitate offline transaction using Near

Field Communication (NFC) technology. This feature will not only enable retail digital payments in situations where internet/telecom connectivity is weak or not available, it will also ensure speed, with minimal transaction declines. Instructions to NPCI will be issued shortly. To read more, please click [here](#).

Minutes of MPC

The 44th meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held during August 8 to 10, 2023.

Accordingly, under Section 45ZL of the Reserve Bank of India Act, 1934; the Reserve Bank published the minutes of the proceedings of the meeting on August 24, 2023, i.e., the 14th day after meeting of the Monetary Policy Committee.

The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors and the projections of professional forecasters. The MPC also reviewed in detail the staff's macroeconomic projections and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below. To read more, please click [here](#).

II. Regulation

Additional CRR

The Reserve Bank on August 10, 2023 issued a directive under Section 42(1A) of the Reserve Bank of India Act, 1934 requiring all Scheduled Commercial Banks/ Regional Rural Banks/all Scheduled Primary (Urban) Co-operative Banks/all Scheduled State Co-operative Banks to maintain with the Reserve Bank of India, effective from the fortnight beginning August 12, 2023, an incremental CRR (I-CRR) of 10 per cent on the increase in NDTL between May 19, 2023 and July 28, 2023. The I-CRR will be reviewed on September 8, 2023 or earlier. To read more, please click [here](#).

UDGAM

The Reserve Bank on August 17, 2023 developed a Centralised Web Portal उद्गम [UDGAM \(Unclaimed Deposits – Gateway to Access inforMation\)](#) for use by members of public to facilitate and make it easier for them to search their unclaimed deposits across multiple banks at one place. The portal was launched by Shri Shaktikanta Das, Governor, RBI. The launch of the web portal will aid users to identify their unclaimed deposits/ accounts and enable them to either claim the deposit amount or make their deposit accounts operative at their respective banks. Reserve Bank Information Technology Pvt. Ltd. (ReBIT), Indian Financial Technology & Allied Services (IFTAS) and participating banks have collaborated on developing the portal. To read more, please click [here](#).

Floating Interest Rate on EMI

The Reserve Bank on August 18, 2023 issued guidelines to reset equated monthly instalments (EMIs) based on floating rate personal loans, including allowing

borrowers to switch over to a fixed rate as per the bank board approved policy. The Reserve Bank directed the regulated entities (REs) to clearly communicate at the time of sanction to the borrowers about the possible impact of a change in the benchmark interest rate on the loan leading to changes in EMI, tenor or both. To read more, please click [here](#).

Penal Charges in Loan Accounts

The Reserve Bank on August 18, 2023 issued a circular on penal charges that banks and other lending institutions can charge in case of non-compliance of loan contract with the borrower. As per the circular issued, penalty, if charged, for non-compliance with terms and conditions of a loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. Further, there shall be no capitalisation of penal charges. The new guidelines will be effective from January 1, 2024. To read more, please click [here](#).

Meeting with NBFCs

Shri Shaktikanta Das, Governor, Reserve Bank of India on August 25, 2023 held a meeting with the MDs and CEOs of select large Non-Banking Financial Companies (NBFCs), including Government NBFCs and Housing Finance Companies (HFCs) in Mumbai. The Governor in his opening remarks complimented the NBFCs and HFCs for their improved financial health and operational resilience in recent years. While acknowledging the important role played by the sector in delivering credit to the unbanked and underserved areas, the Governor advised that the NBFCs and HFCs need to remain alert to avoid any complacency during good times. The Governor highlighted the need for further strengthening the governance standards and assurance mechanisms, viz., Compliance, Risk management and Internal audit in these entities.

These Entities constitute nearly 50 per cent of the total assets of all NBFCs including HFCs. The meeting was also attended by the Deputy Governors Shri M. Rajeshwar Rao and Shri Swaminathan J. To read more, please click [here](#).

Conference for the Directors of large UCBs

The Reserve Bank on August 30, 2023 held a Conference of Directors on the Boards of Tier 3 and 4 Urban Cooperative Banks (UCBs) in Mumbai Zone. Shri Shaktikanta Das, Governor, RBI inaugurated the Conference. The theme of the conference was 'Governance in Banks - Driving Sustainable Growth and Stability'. Deputy Governors Shri M. Rajeshwar Rao and Shri Swaminathan J., along with Executive Directors representing the Departments of Supervision, Regulation and Enforcement of RBI participated in the Conference.

Recalling the objectives and strengths of UCBs in furthering financial inclusion and supporting economic development by providing last mile connectivity, the Governor acknowledged the role played by UCBs in these aspects. He noted that while the UCB sector has displayed improved financial performance at an aggregate level in recent times, concerns and vulnerabilities are seen for

certain individual entities. He highlighted the need for the UCBs to strengthen their financial and operational resilience so as to contribute to the overall financial and banking sector stability. The Governor stressed that the quality of governance was the most important aspect in ensuring stability of individual banks and urged the Directors of UCBs to further strengthen governance practices, especially the three supporting pillars of Compliance, Risk Management and Internal Audit. On the functioning of Boards, the Governor emphasised five aspects - adequate skills and expertise of Directors, constitution of a professional Board of Management, diversity and tenure of Board members, transparent and participatory nature of Board discussions and effective functioning of Board level Committees. He also emphasised on a planned approach towards human resources in the UCBs to ensure adequate quality and right size of manpower in UCBs. To read more, please click [here](#).

Framework for IDF-NBFCs

The Reserve Bank on August 18, 2023 revised the guidelines for Infrastructure Debt Fund-NBFCs (IDF-NBFCs) to enable them to play a greater role in financing the infrastructure sector as well as to harmonise the regulations governing financing of the infrastructure sector. IDF-NBFCs are directed to maintain a minimum net owned fund of ₹300 crore and a minimum capital-to-risk-weighted assets ratio of 15 per cent. To read more, please click [here](#).

III. Payment and Settlement Systems

Small Value Digital Payments

The Reserve Bank on August 24, 2023 increased the upper limit for small value digital payments in offline mode to ₹500 from the earlier cap of ₹200. However, the overall limit for offline transactions on a payment instrument, remains at ₹2,000. To read more, please click [here](#).

IV. Fintech

Frictionless Credit

The Reserve Bank on August 14, 2023 announced the development of a Public Tech Platform for Frictionless Credit. The Platform is being developed by Reserve Bank Innovation Hub (RBIH). It would enable delivery of frictionless credit by facilitating seamless flow of required digital information to lenders. The end-to-end digital platform will have an open architecture, open Application Programming Interfaces (APIs) and standards, to which all financial sector players can connect seamlessly in a 'plug and play' model. During the pilot, the platform shall focus on products such as Kisan Credit Card loans up to ₹1.6 lakh per borrower, dairy loans, MSME loans (without collateral), personal loans and home loans through participating banks. To read more, please click [here](#).

V. Financial Stability Analysis

Meeting of the FSDC Sub-Committee

The Reserve Bank on August 28, 2023 held the 30th meeting of the Sub-Committee of the Financial Stability and

Development Council (FSDC-SC). Shri Shaktikanta Das, Governor, Reserve Bank of India, chaired the meeting. The Sub-Committee reviewed major global and domestic macroeconomic and financial developments, issues of inter-regulatory coordination relating to the Indian financial sector activities of various technical groups under its purview and the functioning of State Level Coordination Committees (SLCCs) in various States/ UTs.

The FSDC-SC resolved to remain vigilant against any build-up in vulnerabilities in all segments of the Indian financial system as well as in the broader economy, especially from global spillovers in a dynamic and uncertain world and to preserve financial system stability for attaining strong, sustainable and inclusive growth. To read more, please click [here](#).

VI. Publication

RBI Bulletin

The Reserve Bank on August 17, 2023 released the August 2023 issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement August 10, 2023, two speeches, five articles and current statistics. The five articles are:

- i) State of the Economy,
- ii) Shifting Tides: Growing Influence of Non-Bank Investors in G-Sec Market in India,
- iii) Exogenous Shocks and India's Growth Performance Post COVID-19,
- iv) Agriculture's Dependency on Monsoon Rainfall in India and
- v) Private Corporate Investment: Performance and Near-term Outlook.

To read more, please click [here](#).

VII. Data Release

Important data released by the Reserve Bank during the month of August 2023 are as follows:

S/N	Title
1	Scheduled Banks' Statement of Position
2	Overseas Direct Investment for July 2023
3	Data on ECB/FCCB/RDB for July 2023
4	Performance of Private Corporate Business Sector during Q1:2023-24
5	Sectoral Deployment of Bank Credit – July 2023
6	Quarterly BSR-1: Outstanding Credit of Scheduled Commercial Banks – June 2023
7	Quarterly BSR-2: Deposits with Scheduled Commercial Banks - June 2023
8	All-India House Price Index (HPI) for Q1:2023-24
9	Lending and Deposit Rates of Scheduled Commercial Banks - August 2023