

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 September 30, 2022 decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.90 per cent with immediate effect.

Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.15 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; and (ii) Payment and Settlement systems.

I. Regulation and Supervision

1) Discussion Paper on Expected Loss Based Approach for Loan Loss Provisioning by Banks:

The inadequacy of the incurred loss approach for provisioning by banks and its procyclicality has been extensively documented. One of the major elements of the global response to these findings has been a shift to the expected credit loss (ECL) regime for provisioning. As a further step towards converging with globally accepted prudential norms, it is proposed to adopt the expected loss approach for loss allowances required to be maintained by banks in respect of their exposures. As a first step, a discussion paper (DP) on the various aspects of the transition will be issued shortly.

2) Discussion Paper on Securitisation of Stressed Assets Framework (SSAF):

Based on market feedback, stakeholder consultations and the recommendations of the task force on the development of a secondary market for corporate loans, it has been decided to introduce a framework for securitisation of stressed assets in addition to the asset reconstruction companies route, similar to the framework for securitisation of standard assets. Accordingly, a DP detailing relevant contours of the proposed framework will be issued shortly inviting comments on certain specific aspects.

3) Internet Banking Facility for Customers of Regional Rural Banks (RRBs):

The regional rural banks (RRB)s are currently allowed to provide internet banking facilities to their customers with prior approval of the Reserve Bank, subject to fulfillment of certain financial and non-financial criteria. Keeping in view the need to promote the spread of digital banking in rural areas, the criteria for RRBs to be eligible to provide internet banking are being rationalised and guidelines are being issued separately.

II. Payment and Settlement Systems

4) Regulating Offline Payment Aggregators

Payment aggregators (PAs) play an important role in the payments ecosystem and hence were brought under regulations and designated as payment system operators. The current regulations are applicable only to PAs processing online or e-commerce transactions and do not cover offline PAs who handle proximity/face-to-face transactions. It is proposed to apply the current regulations to offline PAs as well. Detailed instructions will be issued separately. To read more, please click [here](#).

Contents

Sections

Page

I. Monetary Policy	1
II. Regulation	2
III. Payment and Settlement Systems	3
IV. Currency Management	3
V. Financial Markets	3
VI. Foreign Exchange Management	3
VII. RBI Publications	3
VIII. RBI Bulletin	4
IX. Data Releases	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 September 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

II. Regulation

Change in Bank Rate

The Reserve Bank on September 30, 2022, as announced in the monetary policy statement 2022-23, revised the bank rate upwards by 50 basis points from 5.65 per cent to 6.15 per cent with immediate effect. To read more, please click [here](#).

Prompt Corrective Action Framework

The performance of the Central Bank of India, currently under the Prompt Corrective Action Framework (PCAF) of the Reserve Bank, was reviewed by the Board for Financial Supervision. The Reserve Bank on September 20, 2022 decided that Central Bank of India is taken out of the PCA restrictions subject to certain conditions and continuous monitoring. To read more, please click [here](#).

Guidelines on Digital Lending

The Reserve Bank on September 2, 2022 reiterated that outsourcing arrangements entered by regulated entities (REs) with a lending service provider (LSP)/digital lending app (DLA) does not diminish the REs' obligations and shall continue to conform to the extant guidelines on outsourcing. The Reserve Bank issued detailed guidelines on the recommendations of the working group on 'digital lending-implementation', for immediate implementation. The REs are advised to ensure compliance with these guidelines by LSPs engaged by them and the DLAs (either of the RE or of the LSP engaged by the RE). To read more, please click [here](#).

Chief Compliance Officer

The Reserve Bank on September 19, 2022 introduced certain principles, standards and procedures for compliance function in Urban Co-operative Banks (UCBs), applicable to all UCBs under Tier 3 and Tier 4 categories except UCBs under all-inclusive directions (AID). The UCBs under Tier 4 category shall put in place a Board-approved policy and a compliance function, including the appointment of a Chief Compliance Officer latest by April 1, 2023. The UCBs under Tier 3 category shall implement the same latest by October 1, 2023. To read more, please click [here](#).

Cancellation of the Licence

The Reserve Bank on September 22, 2022 cancelled the licence of the Laxmi Co-operative Bank Limited, Solapur, Maharashtra. Consequently, the bank ceases to carry on banking business, with effect from the close of business on September 22, 2022. The bank is prohibited from conducting the business of 'banking' which includes, among other things, acceptance of deposits and repayment of deposits as defined in Section 5(b) read with Section 56 of the Banking Regulation Act, 1949 with immediate effect. To read more, please click [here](#).

Review of Prudential Norms

Banks are permitted to apply zero percent risk weights in respect of claims on credit guarantee fund trust for

micro and small enterprises (CGTMSE), credit risk guarantee fund trust for low-income housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC).

The Reserve Bank on September 7, 2022 advised that the risk weight of zero per cent shall be applicable in respect of exposures guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC subject to satisfying certain conditions. To read more, please click [here](#).

Cancellation of Certificate of Registration

The Reserve Bank on September 8, 2022 cancelled the certificate of registration (CoR) of the ET Devassy and Sons Finance Private Limited, Thrissur, Kerala, in the exercise of powers conferred on the Bank under Section 45-IA (6) of the Reserve Bank of India Act, 1934. As such, the above company shall not transact the business of a Non-Banking Financial Institution. To read more, please click [here](#).

Tab Capital Private Limited, Mumbai on September 8, 2022 surrendered the CoR granted to it by the Reserve Bank. The Reserve Bank, in the exercise of powers conferred on it under Section 45-IA (6) of the Reserve Bank of India Act, 1934, has therefore cancelled its CoR. To read more, please click [here](#).

Master Directions on Interest Rate on Deposits

The Reserve Bank on September 16, 2022 announced that reference rates for arriving at the interest rates on FCNR (B) deposits are being quoted/displayed by Financial Benchmarks India Pvt. Ltd. (FBIL) with effect from January 31, 2022 which was earlier quoted/displayed by Foreign Exchange Dealers Association of India (FEDAI). The relevant sections of the Master Directions on Interest Rate on Deposits have been suitably modified. To read more, please click [here](#).

Action against Non-Banking Financial Company

The Reserve Bank on September 22, 2022, under section 45L(1)(b) of the Reserve Bank of India Act, 1934, directed Mahindra & Mahindra Financial Services Ltd., Mumbai, to immediately cease carrying out any recovery or repossession activity through outsourcing arrangements, till further orders. However, the said NBFC may continue to carry out recovery or repossession activities, through its own employees. To read more, please click [here](#).

NBFCs in the Upper Layer

The Reserve Bank on September 30, 2022 announced the list of NBFCs in the upper layer under scale-based regulation for NBFCs. The NBFCs mentioned in the list shall put in place a board approved policy for the adoption of the enhanced regulatory framework applicable to NBFC-UL and chart out an implementation plan for adhering to the new set of regulations within three months from September 30, 2022. Further, the board of these NBFCs shall ensure that the stipulations prescribed for the NBFC-UL are adhered to within a maximum time-period of 24 months from September 30, 2022. To read more, please click [here](#).

III. Payment and Settlement Systems

Regulatory Sandbox

The Reserve Bank on September 5, 2022 selected two entities namely, HDFC Bank and Precision Biometric India Pvt. Ltd. for the 'Test Phase' of the 'On Tap' application facility for the theme 'Retail Payments' under Regulatory Sandbox. To read more, please click [here](#).

The Reserve Bank on September 5, 2022 announced that the 5th cohort under the regulatory sandbox will be theme neutral. Innovative products/services/technologies cutting across various functions in the Reserve Bank's regulatory domain would be eligible to apply. To read more, please click [here](#).

IV. Currency Management

Incentive for Non-Chest Branches

The Reserve Bank on September 6, 2022 clarified queries regarding the applicability of GST on the service charges levied on cash deposited by non-chest bank branches to the currency chests. It is clarified that the amount indicated in circulars are exclusive of applicable taxes. Accordingly, the applicable service charges are ₹5/-plus applicable taxes per packet and ₹8/-plus applicable taxes per packet, as the case may be. To read more, please click [here](#).

V. Financial Markets

Liquidity Adjustment Facility

The Reserve Bank on September 30, 2022, as announced in the monetary policy statement dated September 30, 2022, with the concurrence of the monetary policy committee (MPC), decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points from 5.40 per cent to 5.90 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stand adjusted to 5.65 per cent and 6.15 per cent, respectively, with immediate effect. To read more, please click [here](#).

Accordingly, the SLF provided to primary dealers (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate of 5.90 per cent with immediate effect. To read more, please click [here](#).

VI. Foreign Exchange Management

Fee for Reporting Delays under FEMA

The Reserve Bank on September 30, 2022 decided, under section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999), to bring uniformity in the imposition of the late submission fee (LSF) across functions, for reporting delays under Foreign Exchange Management Act, 1999. The provisions shall come into effect immediately. To read more, please click [here](#).

Rupee Drawing Arrangement

The Reserve Bank on September 15, 2022 issued directions, under Section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999), to allow foreign inward remittances received under the Rupee Drawing Arrangement (RDA) to be transferred to the KYC-compliant bank account of the biller (beneficiary) Bharat Bill Payment System (BBPS) subject to the conditions. To read more, please click [here](#).

Line of Credit

The Reserve Bank on September 8, 2022 issued directions for making available to the Government of the Kingdom of Eswatini (Swaziland), Government of India supported Line of Credit (LoC) of USD 108,280,000 as per the agreement by Export-Import Bank of India (Exim Bank), for the purpose of financing the project for the construction of new parliament building in Eswatini. The export of eligible goods and services from India, as defined under the agreement, would be allowed subject to their eligibility under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this agreement. To read more, please click [here](#).

The Reserve Bank on September 15, 2022 issued directions for making available to the Government of Republic of Uzbekistan, Government of India supported Line of Credit (LoC) of USD 448 million as per the agreement by the Exim Bank, for the purpose of financing the social infrastructure and other development projects. The export of eligible goods and services from India, as defined under the agreement, would be allowed subject to their eligibility under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this agreement. To read more, please click [here](#).

Alert List of Entities not Authorised to Deal in Forex

The Reserve Bank on September 7, 2022 decided to place on the Reserve Bank website an Alert List of entities that are neither authorised to deal in forex under the Foreign Exchange Management Act, 1999 nor authorised to operate electronic trading platforms for forex transactions, to caution the public not to undertake forex transactions on unauthorised electronic trading platforms or remit/deposit money for unauthorised forex transactions. The Alert List is not exhaustive and is based on what was known to RBI at the time of this Press Release. An entity not appearing in the alert list should not be assumed to be authorised by the Reserve Bank. To read more, please click [here](#).

VII. RBI Publications

RBI Working Papers

The Reserve Bank published three research papers under its working paper series in the month of September 2022.

i) The first working paper titled 'Predicting Exchange Rate in India: A Non-parametric Causality-in-Quantiles

Approach’, is authored by Seema Jaiswal. The paper examines the relationship between the INR/USD exchange rate, and crude oil and gold prices, domestic and global stock prices, volatility index (VIX) and net foreign portfolio investments under various foreign exchange market conditions. The empirical analysis indicates that most of the selected variables exhibit causality with the exchange rate of the INR for all quantiles excluding the two extreme ends of the conditional distribution. To read the full working paper, please click [here](#).

ii) The second working paper titled ‘Is Implied Volatility Index (VIX) A Forward-Looking Indicator of Stock Market Movements in India?’, is co-authored by Amarendra Acharya, Subrat Kumar Seet and Prakash A. Salvi. The paper examines the relationship between the implied volatility index (VIX) and stock market movements in India over the last decade. It finds that negative returns in the stock index generate larger changes in implied volatility as compared to positive returns. To read the full working paper, please click [here](#).

iii) The third working paper titled ‘Monetary Policy Independence under a Flexible Exchange Rate Regime – The Indian Case’ is co-authored by Harpreet Singh Grewal and Pushpa Trivedi. The paper assesses whether the foreign exchange market interventions by the Reserve Bank, to contain the volatility in INR, have had any constraining influence on India’s monetary policy independence during 1991 to 2020. To read the full working paper, please click [here](#).

Handbook of Statistics

The Reserve Bank on September 15, 2022 released its annual publication titled ‘Handbook of Statistics on the Indian Economy, 2021-22’, (HBS). This publication, the 24th in the series, disseminates time series data on major economic and financial indicators relating to the Indian economy. The current volume contains 237 statistical tables covering national income aggregates, output, prices, money, banking, financial markets, public finances, foreign trade and balance of payments as well as select socio-economic indicators. To read the full working paper, please click [here](#).

VIII. RBI Bulletin

RBI Bulletin – September 2022

The Reserve Bank on September 16, 2022 released the September 2022 issue of its monthly bulletin. The bulletin includes four speeches, three articles and current statistics.

The three articles are: i) State of the Economy; ii) Sensitivity of Output Prices to Input Prices: An Empirical Analysis for India; and iii) Impact of COVID-19 on Economic Activity across Indian States.

I. State of the Economy

The Indian economy is poised to shrug off the modest tapering of growth momentum in the first quarter of 2022-23. Aggregate demand is firm and poised to

expand further as the festival season sets in. Domestic financial conditions remain supportive of growth impulses. Inflation remains elevated and above the tolerance level, underscoring the need for monetary policy to keep second order effects contained and inflation expectations firmly anchored.

II. Sensitivity of Output Prices to Input Prices: An Empirical Analysis for India

This article decodes the pass-through behaviour from input prices to output prices to assess the second-order effects of cost-push pressures. Input prices have seen a broad-based rise following the repeated waves of the pandemic and the war in Europe. With output prices not rising proportionately due to persistent slack in the economy during the period, the gap between input and output prices have widened.

III. Impact of COVID-19 on Economic Activity across the Indian States

The article constructs a composite index to capture trends in economic activity at the State level and analyses how economic activity responded to restrictions in mobility during the pandemic. The article finds that there was considerable variability in the mobility restrictions as well as in economic activity across States during the pandemic and States which are more dependent on agriculture, forestry and logging witnessed a relatively benign impact of mobility restrictions on economic activity whereas States with a high share of manufacturing and services in their gross state value added, witnessed a relatively higher impact on economic activity. To read more, please click [here](#).

IX. Data Releases

Important data releases by the Reserve Bank during the month of September 2022 are as follows:

S N	Title
1.	Exports of Software Services: 2021-22
2.	Handbook of Statistics on the Indian Economy: 2021-22
3.	Overseas Direct Investment: August 2022
4.	Finances of Non-Government Non-Financial Private Limited Companies: 2020-21
5.	Finances of Non-Government Non-Financial Public Limited Companies: 2020-21
6.	Census on Foreign Liabilities and Assets of Indian Direct Investment Entities: 2021-22
7.	Finances of Foreign Direct Investment Companies: 2020-21
8.	Lending and Deposit Rates of Scheduled Commercial Banks: September 2022
9.	India’s External Debt: June 2022
10.	India’s International Investment Position: June 2022
11.	Results of Forward Looking Surveys