# MONETARY & CREDIT INFORMATION REVIEW

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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 May in the world of money and credit. MCIR can be accessed at <a href="https://mcir.rbi.org.in">https://mcir.rbi.org.in</a> 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

#### 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 on May 4, 2022 decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 40 basis points to 4.40 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.15 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 4.65 per cent.
- The MPC also decided to remain accommodative while focusing 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 <u>here</u>.

#### Governor's Statement

The MPC decided to hold an off-cycle meeting on 2<sup>nd</sup> and 4<sup>th</sup> May, 2022 to reassess the evolving inflation-growth dynamics and the impact of the developments after the MPC meeting of April 6-8, 2022. The MPC voted unanimously to increase the policy repo rate by 40 basis points to 4.40 per cent, with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.15 per cent; and the marginal standing facility (MSF) rate and the Bank Rate to 4.65 per cent. The MPC also decided unanimously to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target, going forward, while supporting growth. To read more, please click <a href="here">here</a>.

## Minutes of the MPC Meeting

The 35<sup>th</sup> meeting of the MPC, constituted under Section 45ZB of the Reserve Bank of India Act, 1934, was held during May 2 and 4, 2022 as an off-cycle meeting to reassess the evolving inflation-growth dynamics and the impact of the developments after its meeting of April 6-8, 2022.

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 the fourteenth day after the meeting of the Monetary Policy Committee. To read more, please click <a href="here">here</a>.

## **RBI Central Board Meetings**

The 595<sup>th</sup> meeting of the Central Board of Directors of the Reserve Bank was held on May 2, 2022 under the Chairmanship of Shri Shaktikanta Das, Governor.

The Board approved the nomination of Dr. Rajiv Ranjan, ED as an ex-officio member of the MPC.

Deputy Governors (DGs) Shri Mahesh Kumar Jain, Dr. Michael Debabrata Patra, Shri M. Rajeshwar Rao and other directors of the Central Board – Shri Satish K. Marathe, Shri S. Gurumurthy, Ms Revathy Iyer and Prof. Sachin Chaturvedi attended the meeting. Shri Ajay Seth, Secretary, Department of Economic Affairs also attended the meeting.

The 596th meeting of the Central Board of Directors of the Reserve Bank was held on May 20, 2022 at Mumbai under the Chairmanship of Shri Shaktikanta Das, Governor. The Board reviewed the current economic situation, global and domestic challenges and the impact of recent geopolitical developments, and discussed the working of the Reserve Bank during the year



April 2021–March 2022 and approved the Annual Report and Accounts of the Reserve Bank for the accounting year 2021-22. The Board approved the transfer of ₹30,307 crore as surplus to the Central Government for the accounting year 2021-22, while deciding to maintain the Contingency Risk Buffer at 5.50 per cent. DGs 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 lyer and Prof. Sachin Chaturvedi attended the meeting. Shri Ajay Seth, Secretary, Department of Economic Affairs and Shri Sanjay Malhotra, Secretary, Department of Financial Services also attended the meeting.

# Governor meets MD & CEOs of Public and Private Sector Banks

Shri Shaktikanta Das, Governor held meetings with the MD & CEOs of select public and private sector banks on May 17 and 18, 2022. The meetings were also attended by the DGs Shri M. K. Jain and Shri M. Rajeshwar Rao along with senior officials of the Reserve Bank. In his introductory remarks, the Governor noted the key role played by the banks in supporting the economy throughout the pandemic. He advised the banks to remain watchful of the recent geopolitical developments. To read more, please click here.

#### II. Regulation

#### Credit Ratings for deposits of NBFCs

The Reserve Bank on May 2, 2022, decided that the minimum investment grade credit rating for the purpose of accepting public deposits by NBFCs shall be 'BBB-' from any of the SEBI-registered credit rating agencies. To read more, please click here.

#### Maintenance of Cash Reserve Ratio

As announced in the Governor's statement dated May 4, 2022, it has been decided to increase the cash reserve ratio (CRR) of all banks by 50 basis points from 4.00 per cent to 4.50 per cent of their Net Demand and Time Liabilities (NDTL), effective from the reporting fortnight beginning May 21, 2022. To read more, please click here.

## Reporting of Reverse Repo

In order to bring more clarity to the presentation of the reverse repo on the commercial banks' balance sheet, the Reserve Bank, vide its notification dated May 19, 2022, has issued revised guidelines updating the Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021. To read more, please click <a href="https://example.com/here.com/here/">here.com/here/</a>

## Change in Bank Rate

As announced in the Monetary Policy Statement 2022-23 dated May 4, 2022, the Bank Rate has been

revised upwards by 40 basis points from 4.25 per cent to 4.65 per cent with immediate effect. To read more, please click here.

## Finance for Housing Schemes – Primary (Urban) Co-operative Banks

The Reserve Bank on May 24, 2022 revised the ceiling on loans to individuals for carrying out repairs/additions/alterations to their dwelling units to ₹10 lakh in metropolitan centres (those centres with population of 10 lakh and above) and ₹6 lakh in other centres. To read more, please click here.

### Interest Equalization Scheme

In terms of paragraph 2.4 of circular No. DOR.STR.REC.93/04.02.001/2021-22 dated March 8, 2022, the extended interest equalisation scheme (IES) on pre and post shipment rupee export credit was not available to those beneficiaries, who were availing benefit under any production linked incentive (PLI) scheme of the Government. The Reserve Bank on May 31, 2022 advised that, as per Government clarification, the extended IES will also be available to such beneficiaries for segments other than for which they have availed of PLI benefits. These provisions shall be deemed effective from October 1, 2021. To read more, please click here.

#### RRA 2.0: Withdrawal of Circulars

The Reserve Bank had set up the Regulations Review Authority (RRA 2.0) to review the regulatory instructions, remove redundant or duplicate instructions and reduce the compliance burden on Regulated Entities. In the third tranche of recommendations: RRA 2.0 has recommended the withdrawal of 225 circulars on May 2, 2022 and additionally 239 circulars on May 13, 2022. With this, the total number of circulars withdrawn is 714. To read more, please click here.

## III. Foreign Exchange Management

## Term loan by SBI - Settlement in INR

In view of the difficulties being experienced by exporters in receipt of export proceeds from Sri Lanka and State Bank of India's credit facility agreement, for financing the purchase of essential goods by Sri Lanka from India, the Reserve Bank on May 19, 2022 decided that such trade transactions with Sri Lanka, falling under the said arrangement, may be settled in INR outside the Asian Clearing Union mechanism. The said instructions came into force with immediate effect. To read more, please click here.

## Report on Management of Foreign Exchange Reserves

The Reserve Bank on May 12, 2022 released the 38th half-yearly report on the management of foreign



exchange reserves for the period ending March 31, 2022. This report is released in the public domain for bringing about more transparency and enhancing the level of disclosure in relation to management of India's foreign exchange reserves. To read more, please click here.

## Guidelines on Import of Gold

The Reserve Bank on May 25, 2022 advised that qualified jewellers, as notified by International Financial Services Centers Authority (IFSCA), will be permitted to import gold under specific ITC(HS) codes through India International Bullion Exchange IFSC Ltd. (IIBX), in addition to nominated agencies as notified by the Reserve Bank (in case of banks) and nominated agencies as notified by DGFT. To read more, please click here.

#### IV. Payment and Settlement Systems

#### Interoperable Card-less Cash Withdrawal

The Reserve Bank had announced the introduction of interoperable card-less cash withdrawal (ICCW) in the statement on the development and regulatory policies dated April 8, 2022. Accordingly, all banks, ATM networks and white label ATM operators may provide the option of ICCW at their ATMs. The Reserve Bank on May 19, 2022 advised National Payments Corporation of India to facilitate Unified Payments Interface (UPI) integration with all banks and ATM networks. The on-us/off-us ICCW transactions shall be processed without levy of any additional charges. To read more, please click here.

## Bharat Bill Payment System

The Reserve Bank on May 26, 2022, informed that as announced in the Statement on Development and Regulatory Policies dated April 08, 2022, the minimum net-worth requirement for non-bank Bharat Bill Payment Operating Units (BBPOUs) stands reduced to ₹25 crore from immediate effect. To read more, please click here.

#### V. Consumer Education and Protection

#### Review of Customer Service Standards

As part of the Statement on Developmental and Regulatory Policies released on April 8, 2022, the Reserve Bank had announced setting up of a committee for review of customer service standards in the Reserve Bank regulated entities (REs) for examining and reviewing the state of customer service in the REs and adequacy of customer service regulations and suggest measures to improve customer service. Accordingly, the Reserve Bank on May 23, 2022 announced the constitution of a committee under the chairmanship of Shri B. P. Kanungo. Chief General Manager, Consumer Education and Protection Department, Central office will be member Secretary of the committee. To read more, please click here.

#### VI. Financial Markets

## Liquidity Adjustment Facility

The Reserve Bank on May 4, 2022 decided to increase the policy Repo rate under the liquidity adjustment facility (LAF) by 40 basis points from 4.00 per cent to 4.40 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stand adjusted from 3.75 per cent to 4.15 per cent and from 4.25 per cent to 4.65 per cent, respectively, with immediate effect. To read more, please click here.

The standing liquidity facility provided to primary dealers from the Reserve Bank would be available at the revised Repo rate of 4.40 per cent with effect from May 4, 2022. To read more, please click here.

#### VII. Financial Inclusion and Development

## Kisan Credit Card Scheme

Given the varied nature of licensing and authorisation related requirements pertaining to inland fisheries and aquaculture across the states, the Reserve Bank on May 18, 2022 modified the eligibility criteria for KCC. Under the scheme now, the beneficiaries must own or lease any fisheries related assets and possess necessary authorisation/certification as may be applicable in respective states for fish farming and fishing-related activities and for any other state-specific fisheries and allied activities. To read more, please click here.

## Sectoral Deployment of Bank Credit

The Reserve Bank on May 31, 2022 released data on sectoral deployment of bank credit for the month of April 2022 collected from select 40 scheduled commercial banks that account for about 93 per cent of the total non-food credit. On a year-on-year (y-o-y) basis, non-food bank credit registered a growth of 11.3 per cent in April 2022 as compared with 4.7 per cent a year ago. Credit growth (y-o-y) to agriculture and allied activities, industry, and services sector was at 10.6 per cent, 8.1 per cent and 11.1 per cent, respectively, in April 2022 (10.7 per cent 0.4 per cent, 2.4 per cent, respectively, in April 2021).Personal loans segment continued to perform well driven by housing and vehicle loans segments.

## Lending to NBFCs

Lending by commercial banks to non-banking financial companies (NBFCs) and lending by small finance banks to NBFC-Micro Financial Institutions for the purpose of on-lending to certain priority sectors, was permitted up to March 31, 2022. The Reserve Bank on May 13, 2022 decided to allow the above facility on an ongoing basis to ensure the contribution of the synergies developed between banks and NBFCs in delivering credit to specified priority sectors. To read more, please click here.

#### VIII. RBI Bulletin

#### RBI Bulletin – May 2022

The Reserve Bank on May 17, 2022, released the May 2022 issue of its monthly bulletin. The Bulletin includes Monetary Policy Statement, 2022-23; Resolution of the Monetary Policy Committee - May 2 and 4, 2022; one speech, four articles and current statistics. The four articles are:

#### I. State of the Economy

The Indian economy consolidated its recovery, with most constituents surpassing pre-pandemic levels of activity. Heightened global risks stemming from weakening growth, elevated inflation, supply disruptions on account of geopolitical spillovers and financial market volatility stemming from synchronised monetary tightening pose near-term challenges.

## II. Financial Stocks and Flow of Funds of the Indian Economy 2019-20

The article presents instrument-wise financial stocks and flow of funds for the five broad institutional sectors - i) financial corporations; ii) non-financial corporations; iii) general government; iv) households including non-profit institutions serving households; and v) rest of the world, on a 'from-whom-to-whom' basis for the year 2019-20. The major findings are:

- **a)** The financial resource gap of the domestic economy narrowed during 2019-20.
- **b)** In terms of financial net worth, households held the prime position followed by financial corporations, whereas general government and non-financial corporations continued to be net borrowers.
- c) The financial resource balance of the financial corporations strengthened during 2019-20.
- **d)** India's dependency on foreign resources has declined as compared to a year ago.
- **e)** Overall, loans and advances remained the most preferred instrument for deployment of resources followed by currency and deposits.

#### III. Growth Maximising External Debt of India

The article investigates the relationship between external debt and growth. The major findings are:

- **a)** The findings provide evidence of a nonlinear Laffer Curve type inverted U-shaped relationship.
- **b)** The estimated growth maximising external debt to GDP ratio is higher than the current level indicating space for attracting more debt flows.
- c) The identified space for India's external debt may be carefully assessed along with other external vulnerability parameters for preserving macro-stability while pursuing the objective of growth.

#### IV. Irrigation Management for Sustainable Agriculture

This article analyses the trends in the area-weighted cost and efficiency of irrigation across agriculturally important Indian states. The major findings are:

- **a)** The area-weighted cost of irrigation declined during the study period reflecting the impact of increased access to subsidised power in most of the states.
- **b)** The estimated technical efficiency of irrigation suggests that majority of the states lie far from the efficiency frontier and have shown a declining trends.
- c) The inefficiency appears to be driven by the energy consumption in the farm sector and ground water accessibility.
- **d)** The findings call for policy focus on energy and water efficient irrigation technologies. To read more, please click <u>here</u>.

#### IX. Research and Data

#### Annual Report

The Reserve Bank on May 27, 202 released its Annual Report for 2021-22, a statutory report of its Central Board of Directors. The Report covers the working and functions of the Reserve Bank of India for the period April 2021 - March 2022. To read more, please click here.

#### All-India House Price Index for Q4:2021-22

The Reserve Bank on May 31, 2022 released its quarterly house price index (HPI) (base: 2010-11=100) for Q4:2021-22, based on transaction-level data received from the housing registration authorities in ten major cities. Major findings of the index are:

- All India HPI recorded an annual growth of 1.8 per cent in Q4:2021-22 as compared with 3.1 per cent in the previous quarter and 2.7 per cent a year ago; the y-o-y movements in HPI varied widely across the cities ranging from a growth of 19.2 per cent (Kolkata) to a contraction of 11.3 per cent (Bengaluru).
- On a sequential (q-o-q) basis, all India HPI registered a contraction of 1.1 per cent in Q4:2021-22; Bengaluru recorded the highest sequential contraction of 11.1 per cent. Kolkata, Chennai and Kanpur recorded sequential growth. To read more, please click here.

#### X. Data Releases

Important data releases by the Reserve Bank during May 2022 are as follows:

Sr No	Title
1.	International Trade in Services: March 2022
2.	Scheduled Banks' Statement of Position in India: April 22, 2022
3.	ECB/FCCB/RDB: March 2022
4.	Overseas Direct Investment: April 2022
5.	Sectoral Deployment of Bank Credit: April 2022
6.	Lending and Deposit Rates of SCBs: May 2022
7.	Quarterly Statistics on Deposits and Credit of SCBs: March 2022
8.	India's Invisibles: October – December 2022