

MONETARY & CREDIT INFORMATION REVIEW

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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 held on October 8, 2021 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Accordingly, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. 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

I. Liquidity Measures

On Tap Special Long-Term Repo Operations for Small Finance Banks : –

Recognising the persisting uneven impact of the pandemic on small business units, micro and small industries, and other unorganised sector entities, the Reserve Bank extended the three-year special long-term repo operations (SLTRO) facility of ₹10,000 crore at the repo rate to Small Finance Banks (SFBs) for fresh lending of up to ₹10 lakh per borrower till December 31, 2021. Further, the facility will now be available on tap to ensure extended support to SFB's. To read more, please click [here](#).

II. Payment and Settlement System

a) *Digital Payment Solutions in Offline Mode : –*

The Reserve Bank proposed to introduce a framework for carrying out retail digital payments in offline mode across the country as indicated in the Statement on Developmental and Regulatory Policies dated August 6, 2020. Three pilots were successfully conducted under the scheme in different parts of the country involving small-value transactions covering a volume of 2.41 lakh for value ₹1.16 crore. To read more, please click [here](#).

b) *Enhancing Transaction Limit in IMPS to ₹5 lakh : –*

The Reserve Bank proposed to increase the per-transaction limit from ₹2 lakh to ₹5 lakh for channels other than SMS and IVRS. This will lead to further increase in digital payments and will provide an additional facility to customers for making digital payments beyond ₹2 lakh. To read more, please click [here](#).

c) *Geo-tagging of Payment System Touch Points : –*

To ensure a balanced spread of acceptance infrastructure across the length and breadth of the country and to ascertain location information of existing payment acceptance infrastructure, the Reserve bank would lay down a framework for geo-tagging (capturing geographical coordinates, such as, latitude and longitude) of physical payment acceptance infrastructure, such as, Point of Sale (PoS) terminals and Quick Response (QR) code used by merchants. This would complement the Payments Infrastructure Development Fund (PIDF) framework by ensuring better deployment of acceptance infrastructure and wider access to digital payments. To read more, please click [here](#).

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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 October 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

d) Regulatory Sandbox : –

With a view to preparing the fintech eco-system, the topic for the Fourth Cohort would be 'Prevention and Mitigation of Financial Frauds'. The focus would be on using technology to reduce the lag between the occurrence and detection of frauds, strengthening the fraud governance structure and minimising response time to frauds. In addition, to ensure continuous innovation and to enable a proactive response to the rapidly evolving FinTech scenario, the Reserve Bank proposed to facilitate 'On Tap' application for themes of cohorts earlier closed 'Retail Payments', 'Cross Border Payments' and 'MSME Lending'. To read more, please click [here](#).

III. Debt Management

Review of Ways and Means Advances (WMA) Limits and Relaxation in Overdraft (OD) Facility for State Governments/UTs : -

Considering the uncertainties related to the ongoing pandemic, the Reserve Bank decided to continue with the enhanced WMA limits of ₹51,560 crore up to March 31, 2022. Further, in order to help States/UTs manage their cash flows better, the Reserve Bank decided to continue with the liberalised measures introduced to deal with the pandemic, such as, enhancement of maximum number of days of OD in a quarter from 36 to 50 days and the number of consecutive days of OD from 14 to 21 days, up to March 31, 2022. To read more, please click [here](#).

IV. Financial Inclusion and Customer Protection

a) *Priority Sector Lending - Permitting Banks to On-lend through NBFCs : -*

Considering the increased traction observed in delivering credit to the underserved/unserved segments of the economy, it has been decided to extend this facility up to March 31, 2022. To read more, please click [here](#).

b) *Internal Ombudsman for NBFCs : -*

With a view to further strengthen the internal grievance redress mechanism of NBFCs, the Reserve Bank decided to introduce the Internal Ombudsman Scheme (IOS) for certain categories of NBFCs which have higher customer interface. The IOS for NBFCs, which will be on the lines of IOS for banks and non-bank payment system participants, will require select NBFCs to appoint an Internal Ombudsman at the top of their internal grievance redressed mechanism to examine customer complaints which are in the nature of deficiency in service and are partly or wholly rejected by the NBFCs. To read more, please click [here](#).

Minutes of the MPC Meeting

The 31st meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from October 6 to 8, 2021. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting. To read more, please click [here](#).

I. Regulation

Opening of Current Accounts by Banks

The Reserve Bank on October 29, 2021 allowed banks to open current accounts for borrowers who have availed credit facilities in the form of cash credit (CC)/overdraft (OD) from the banking system as per the following provisions:

- i) For borrowers, where the exposure of the banking system is less than ₹5 crore, there is no restriction on opening of current accounts or on provision of CC/OD facility by banks, subject to obtaining an undertaking from such borrowers that they shall inform the bank(s), as and when the credit facilities availed by them from the banking system reaches ₹5 crore or more.
- ii) In respect of borrowers where exposure of the banking system is ₹5 crore or more, such borrower can maintain current accounts with any one of the banks with which it has CC/OD facility, provided that the bank has at least 10 per cent of the exposure of the banking system to that borrower.

The Reserve Bank clarified that borrowers not availing CC/OD facility from the banking system shall continue to maintain current accounts as per para 1(v) of the extant regulations. To read more, please click [here](#).

Gold Monetisation Scheme, 2015

The Reserve Bank of India on October 28, 2021 amended the Master Direction for Gold Monetisation Scheme, 2015 dated October 22, 2015, with immediate effect. To read the Master Direction, please click [here](#).

Capital Adequacy for Local Area Banks

The Reserve Bank on October 26, 2021 issued Master Direction on Capital Adequacy for Local Area Banks (Directions), 2021 to enable Local Area Banks to have current instructions at one place. To read the Master Direction, please click [here](#).

SBR Framework for NBFCs

The Reserve Bank on October 22, 2021 put in place a scale-based regulatory (SBR) framework for all Non-Banking Financial Companies (NBFCs) based on the inputs received from public on the discussion paper issued on January 22, 2021. The SBR framework encompasses different facets of regulation of NBFCs covering capital requirements, governance standards and prudential regulation. These guidelines shall be effective from October 1, 2022. The instructions relating to ceiling on IPO funding given vide para 3.1(d) of the Annex shall come into effect from April 01, 2022. To read more, please click [here](#).

Prudential Regulation for AIFs - 2021

The Reserve Bank on October 22, 2021 issued draft directions to implement the Basel III capital framework for the four All India Financial Institutions (AIFs) namely EXIM Bank, NABARD, NHB, and SIDBI. These directions

consolidate and contain suitable modifications to the existing instructions on exposure norms, classification, valuation and operation of investment portfolio norms and resource raising norms issued to these institutions. Further, the Reserve Bank introduced limits for investments by AIFs in subsidiaries, financial services companies and non-financial services companies. Feedback on the draft directions may be submitted by November 30, 2021. To read more, please click [here](#).

Sovereign Gold Bond Scheme

The Reserve Bank on October 22, 2021 issued consolidated procedural guidelines on the Sovereign Gold Bond Scheme for all receiving offices, BSE/NSE and depositories superseding all operational/procedural guidelines issued till date. The Reserve Bank has also updated the rules and regulations applicable for servicing of bonds with instructions issued till date. All the receiving offices shall be guided by these instructions while dealing with servicing of these bonds. To read more, please click [here](#).

Format for Furnishing of Credit Information

The Reserve Bank on October 22, 2021 decided to make mandatory reporting of relationship segment (RS) data by credit institutions (CIs) to Credit Information Companies (CICs) under the uniform credit reporting format, from now on. The Reserve Bank observed that there is a low level of RS details in the databases of CICs. The reporting requirement may be staggered to ensure implementation in a non-disruptive manner, as indicated below:

- i) The reporting would be mandatory in respect of new loan accounts opened after July 1, 2022.
- ii) A phased approach shall be followed for reporting of legacy data as detailed below:
 - a) The accounts opened during the period July 1, 2021 to June 30, 2022 have to be updated by January 1, 2023.
 - b) The accounts opened in past three years July 1, 2018 to June 30, 2021 have to be updated by July 1, 2023.
 - c) A timeline for reporting of the remainder legacy data would be reviewed by the Technical Working Group and the CIs would be advised in due course.

The Reserve Bank advised all CIs to commence reporting the aforesaid information to CICs as per the prescribed timelines. To read more, please click [here](#).

Inclusion in the Second Schedule

The Reserve Bank on October 7, 2021 included Paytm Payments Bank Limited in the second schedule of the Reserve Bank of India Act, 1934 vide notification dated September 06, 2021 and published in the Gazette of India (Part III - Section 4) dated October 2-October 8, 2021. To read more, please click [here](#).

PDI in Additional Tier 1 Capital

The Reserve Bank on October 1, 2021 issued clarification on “eligible amount” for the purpose of

issue of Perpetual Debt Instruments (PDIs) in foreign currency as per the [Master Circular ‘Basel III Capital Regulations’ dated July 1, 2015](#). Eligible amount for issue of PDIs would mean the higher of:

- i) 1.5 per cent of Risk Weighted Assets (RWAs) and
 - ii) Total Additional Tier 1 capital
- as on March 31 of the previous financial year.

Not more than 49 per cent of the “eligible amount” as above can be issued in foreign currency and/or in rupee denominated bonds overseas. All the other terms of the Master Circular shall remain unchanged. To read more, please click [here](#).

Enhancement in Family Pension

The Reserve Bank on October 4, 2021 issued guidelines for treatment of additional liability on account of revision in family pension of the member banks of the Indian Banks’ Association (IBA) covered by the 11th Bipartite settlement. These banks may take the following course of action in the matter:

- i) The liability for enhancement of family pension shall be fully recognised as per applicable accounting standards.
- ii) The expenditure, may, if not fully charged to the Profit and Loss Account during the financial year 2021-22, be amortised over a period not exceeding five years beginning with the financial year ending March 31, 2022, subject to a minimum of 1/5th of the total amount involved being expensed every year.
- iii) Appropriate disclosures of the accounting policy followed in this regard shall be made in the ‘Notes to Accounts’ to the financial statements. The Notes to Accounts shall also disclose the amount of unamortised expenditure and the consequential net profit if the unamortised expenditure had been fully recognised in the Profit and Loss Account.

The Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021 shall be accordingly updated. To read more, please click [here](#).

IRAC and Provisioning Norms

The Reserve Bank on October 1, 2021 issued a Master Circular with consolidated instructions on matters relating to prudential norms on income recognition, asset classification (IRAC) and provisioning pertaining to advances for all the commercial Banks. To read the Master Circular, please click [here](#).

III. Banker to Government

SGL and CSGL Account Guidelines

The Reserve Bank on October 9, 2021 issued revised eligibility criteria and operational guidelines for opening and maintenance of Subsidiary General Ledger (SGL) Accounts and Constituents’ Subsidiary General Ledger (CSGL) Accounts. These guidelines have been issued in supersession to the earlier Guidelines dated October 29, 2018. To read more, please click [here](#).

VFT of Government Securities - Guidelines

The Reserve Bank on October 05, 2021 issued revised Guidelines on Value Free Transfer (VFT) of Government Securities by exercising the powers conferred under Notifications dated September 22, 2021 and superseding earlier instructions issued on the subject matter. These guidelines will further streamline the VFT of government securities. To read more, please click [here](#).

IV. RBI Bulletin

The Reserve Bank on October 18, 2021 released its monthly Bulletin. The Bulletin consists of Governor's Statement, Monetary Policy Statement, 2021-22 Resolution of the Monetary Policy Committee on October 6-8, 2021, Monetary Policy Report – October 2021, five Speeches, five Articles and current statistics. The five articles are:

i) *State of the Economy*

Amidst an accentuation of global risks, the Indian economy is picking up steam, although the recovery is uneven and trudging through soft patches. The step up in vaccination, slump in new cases/mortality rates and normalising mobility has rebuilt confidence. Domestic demand is gaining strength while aggregate supply conditions are recouping, powered by the robust performance of kharif agricultural production and revival in manufacturing and services. Softer than expected food prices have eased headline inflation into a closer alignment with the target.

ii) *Should Financial Stability be a Monetary Policy Goal? Evidence from India*

Literature is divided on whether financial stability should be adopted by an inflation targeting central bank as an 'explicit' policy objective. The present article empirically evaluates the question in the Indian context where financial stability is not an 'explicit' goal of monetary policy, but macroprudential policies and interest rate decisions are coordinated for simultaneous pursuit of both goals. In this article, an aggregate macroprudential policy (MPP) index has been constructed using risk weights and provisioning for standard assets in housing, commercial real estate (CRE), consumer loans and capital market exposure; loan-to-value (LTV) ratio and cash reserve ratio (CRR).

An empirical analysis using macroeconomic variables for the period June 1997 to March 2020 suggests that monetary policy does exert influence over inflation and business cycles, but, at the same time, does not intensely influence financial cycles. Financial cycles are influenced by credit cycles, which in turn are impacted by macroprudential policies. Juxtaposing the MPP index with the repo rate shows that macroprudential policies in India have generally evolved in sync with the monetary policy. The article concludes that the approach of using monetary and macroprudential policies in a coordinated manner has served the

economy well, even after the adoption of flexible inflation targeting (FIT).

iii) *Return on Physical Capital: Insights from Firm Level Data*

Return on physical capital (RoPC) is an important metric to gauge value creation in manufacturing due to the predominant role of physical capital in production. This study explores the variation in RoPC in the formal manufacturing sector across various firm characteristics such as age, location, size, type of ownership, capital intensity and type of activity using the firm level Annual Survey of Industries (ASI) data for the year 2017-18.

iv) *Renewable Energy – The Silent Revolution*

Renewable Energy (RE) has played a pivotal role in India's transition to a power surplus country. This article examines India's current electricity market structure and the role of RE in electricity inflation. Empirical analysis suggests that sustained fall in generation costs for RE sources are exerting downward pressures on electricity tariffs in the whole sale and short-term markets. It argues that realizing the potential of the progress made in RE development of the promises of RE for a greener and low-cost economy warrants strategic policy changes, focusing on curbing cross-subsidisation, speedier resolution of financial stress facing DISCOMs, promotion of decentralised production and distribution and creating an environment for innovations and faster adoption of green technology.

v) *The Low Yield Environment and Forex Reserves Management*

This article highlights the prominent drivers of the declining trend in nominal yields and the scope for looking beyond traditional ways to manage foreign exchange reserves in order to augment portfolio returns without undermining the goals of safety and liquidity. To read the Bulletin, please click [here](#).

V. Data Releases

Important Data Releases by the Reserve Bank in the month of October 2021 are as follows:

	Title
1	37th Half Yearly Report on Management of Foreign Exchange Reserves: April-September, 2021
2	Basic Statistical Return on Credit by Scheduled Commercial Banks in India - March 2021
3	Survey on Foreign Collaboration in Indian Industry: 2019-2021
4	OBICUS Survey on the Manufacturing sector for Q1:2021-22
5	Industrial Outlook Survey of the Manufacturing Sector for Q2:2021-22
6	Bank Lending Survey for Q2:2021-22
7	Services and Infrastructure Outlook Survey for Q2:2021-22