

MONETARY & CREDIT INFORMATION REVIEW



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Note from the Editor

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

I. RBI Central Board Approves Surplus Transfer to the Government

The Central Board of the Reserve Bank of India (RBI) on August 26, 2019 decided to transfer a sum of ₹1,76,051 crore to the Government of India comprising of ₹1,23,414 crore of surplus for the year 2018-19 and ₹52,637 crore of excess provisions identified as per the revised Economic Capital Framework (ECF) adopted at the meeting of the Central Board held on August 26, 2019. This is in line with the recommendations of the Expert Committee to Review the Extant Economic Capital Framework of the Reserve Bank of India chaired by Dr. Bimal Jalan.

The Committee's recommendations were guided by the fact that the RBI forms the primary bulwark for monetary, financial and external stability. Hence, the resilience of the RBI needs to be commensurate with its public policy objectives and must be maintained above the level of peer central banks as would be expected of a central bank of one of the fastest growing large economies of the world. The full report of the committee can be accessed by clicking [here](#).

II. RBI releases its Annual Report

RBI released its Annual Report, a statutory report of its Central Board of Directors for 2018-19 on August 29, 2019. The report can be accessed on the RBI website by clicking [here](#) as well as by scanning the QR code.



III. Monetary Policy

Third Bi-monthly Monetary Policy 2019-20

III) a) 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 August 7, 2019 decided to:

- Reduce the policy repo rate under the Liquidity Adjustment Facility (LAF) by 35 basis points from 5.75 percent to 5.40 percent with immediate effect.
- Consequently, the Reverse Repo Rate under the LAF stands revised to 5.15 per cent, and the Marginal Standing Facility (MSF) rate and the Bank Rate to 5.65 percent.

The MPC also decided to maintain the accommodative stance of monetary policy.

These decisions are in consonance with the objective of achieving the medium-term target for Consumer Price Index (CPI) inflation of 4 percent within a band of +/- 2 percent, while supporting growth. To read more, please click [here](#).

III) b) Statement on Developmental and Regulatory Policies

1. Introduction of Stripping/Reconstitution Facility

The extension of the Scheme of Non-Competitive Bidding and aggregators/facilitators to State Development Loans (SDLs) are some of the efforts taken by the RBI to develop the SDL market. In continuation of these efforts, it has been

decided to introduce the stripping/reconstitution facility for SDLs in consultation with the respective State Governments.

2. Payment and Settlement Systems

i) Round-the-Clock Availability of NEFT

As mentioned in the Payment System Vision 2021 document, the RBI will make available the National Electronic Funds Transfer System (NEFT) system on a 24x7 basis from December 2019. This is expected to revolutionise the retail payments system of the country.

ii) Expansion of Biller Categories for BBPS

It has been decided to permit all categories of billers (except prepaid recharges) who provide for recurring bill payments to participate in Bharat Bill Payment System (BBPS) on a voluntary basis.

iii) 'On-tap' Authorisation for Retail Payment Systems

It has been decided to offer 'on tap' authorisation to entities desirous to function/operate/provide platforms for Bharat Bill Payment Operating Unit (BBPOU); Trade Receivables Discounting System (TReDS); and White Label ATMs (WLAs).

iv) Creation of a Central Payments Fraud Information Registry

It is proposed to facilitate the creation of a Central Payment Fraud Registry that will track frauds. Payment system participants will be provided access to this registry for near-real time fraud monitoring.

3. Banking Regulation, Financial Inclusion and Credit flow to NBFCs

i) Reduction in risk weight for consumer credit

On a review, it has been decided to reduce the risk weight for consumer credit, including personal loans, but excluding credit card receivables to 100 percent.

ii) Measures to enhance credit flow to NBFC sector

It has now been decided to take further measures to enhance credit flow to NBFC sector as follows:

□ As a step towards harmonisation of the counterparty exposure limit to single NBFC with that of the general limit, it has been decided to raise a bank's exposure limit to a single NBFC to 20 percent of Tier-I capital of the bank.

□ With a view to further increasing the credit flow to certain priority sectors which contribute significantly to the economic growth in terms of export and employment and recognizing the role played by NBFCs in providing credit to these sectors, it has been decided to allow, subject to certain conditions, bank lending to registered NBFCs (other than MFIs) for on-lending to Agriculture (investment credit) up to ₹10.0 lakh; Micro and Small Enterprises up to ₹ 20.0 lakh and housing up to ₹ 20.0 lakh per borrower (up from ₹10.0 lakh at present) to be classified as priority sector lending. To read the full statement, please click [here](#).

III) c) Minutes of the Monetary Policy Committee Meeting

The RBI on August 21, 2019, placed in the public domain the minutes of the Third Bi-monthly Monetary Policy Committee (MPC) meeting held during August 5-7, 2019. The meeting was attended by all the members - Dr. Chetan Ghate, Professor, Indian Statistical Institute; Dr. Pami Dua, Director, Delhi School of Economics; Dr. Ravindra H. Dholakia, former Professor, Indian Institute of Management, Ahmedabad; Dr. Michael Debabrata Patra, Executive Director (the officer of the RBI nominated by the Central Board under Section 45ZB(2)(c) of the RBI Act, 1934); Shri Bibhu Prasad Kanungo, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. 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 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. All members of the MPC unanimously voted to reduce the policy repo rate and to maintain the accommodative stance of monetary policy. Four members (Dr. Ravindra H. Dholakia, Dr. Michael Debabrata Patra, Shri Bibhu Prasad Kanungo and Shri Shaktikanta Das) voted to reduce the policy rate by 35 basis points, while two members (Dr. Chetan Ghate and Dr. Pami Dua) voted to reduce the policy repo rate by 25 basis points. Even as past rate cuts are being gradually transmitted to the real economy, the benign inflation outlook provides headroom for policy action to close the negative output gap. Addressing growth concerns by boosting aggregate demand, especially private investment assumes the highest priority at this juncture while remaining consistent with the inflation mandate. To read more, please click [here](#).

IV. Banking Regulation

IV) a) Lending by banks to NBFCs for On-lending under PSL

As stated in the Statement on Developmental and Regulatory Policies released along with the Third Bi-monthly Monetary Policy for 2019-20 on August 7, 2019, the RBI decided that bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as a priority sector under respective categories subject to the following

conditions:

i) **Agriculture:** On-lending by NBFCs for 'Term lending' component under Agriculture will be allowed up to ₹10 lakh per borrower.

ii) **Micro and Small Enterprises:** On-lending by NBFC will be allowed up to ₹20 lakh per borrower.

iii) **Housing:** Enhancement of the existing limits for on-lending by HFCs vide para 10.5 of our Master Direction on Priority Sector lending, from ₹10 lakh per borrower to ₹20 lakh per borrower. Bank credit to NBFCs for on-Lending will be allowed up to a limit of 5 percent of individual bank's total priority sector lending on an ongoing basis. To read more, please click [here](#).

V. Financial Inclusion

Interest Subvention Scheme for KCC to Fisheries and Animal Husbandry Farmers

The RBI advised on August 26, 2019 that the Government of India has issued operational guidelines of the Interest Subvention Scheme for Kisan Credit Card facility to fisheries and animal husbandry farmers for a period of two years i.e., 2018-19 and 2019-20 with the following stipulations:

i) To provide short-term loans upto ₹2 lakh to farmers involved in activities related to Animal Husbandry and Fisheries.

ii) To provide an additional interest subvention of 3 percent annum to such of those farmers repaying in time i.e. from the date of disbursement of the working capital loan upto an actual date of repayment by farmers or upto the due date fixed by the banks for repayment of loan, whichever is earlier.

iii) To ensure hassle-free benefits under Interest Subvention Scheme, banks are advised to make Aadhar linkage mandatory for availing short-term loans for Animal Husbandry and Fisheries in 2018-19 and 2019-20.

The Interest Subvention Scheme is being put on DBT mode on 'In Kind/services' basis and all short term loans processed from 2018-19 are required to be brought on ISS portal/DBT portal. To read more, please click [here](#).

VI. Payment & Settlement Systems

VI) a Free ATM transactions- Clarifications

The RBI issued a clarification on August 14, 2019 clarifying that ATM transactions that fail on account of technical reasons like hardware, software, communication issues, non-availability of currency in the ATM; and other declines ascribable direct/

wholly to the bank/service provider; invalid PIN/validations; etc., shall not be counted as valid ATM transactions for the customer. Consequently, no charges therefor shall be levied for such transactions. Non-cash withdrawal transactions such as balance enquiry, cheque book request, payment of taxes, etc., which constitute 'on-us' transactions shall also not be part of the number of free ATM transactions. To read more, please click [here](#).

VI) b Processing of e-mandate on cards

The RBI on August 21, 2019 decided to permit processing of e-mandate on cards for recurring transactions (merchant payments) with Additional Factor of Authorization (AFA) during e-mandate registration, modification and revocation, as also for the first transaction, and simple/automatic subsequent successive transactions, subject to certain conditions. The maximum permissible limit for a transaction under this arrangement is ₹2,000/-. To read more, please click [here](#).

VI) c Issuance and Operation of Prepaid Payment Instruments (PPIs)

The RBI has decided to amend the Master Direction on Issuance and Operation of Prepaid Payment Instruments (PPIs) issued vide circular DPSS.CO.PD.No.1164/02.14.006/2017- 18 dated October 11, 2017. Accordingly, it has been advised that the timeline for conversion of minimum detail PPIs to KYC compliant PPIs has been extended from 18 months to 24 months. The PPI Master Direction has been amended suitably. To read more, please click [here](#).

VI) d Cash Withdrawal at PoS Devices

The RBI has reiterated the instructions issued in its circulars dated July 22, 2009, September 5, 2013 and August 27, 2015 on cash withdrawal at Points-of-Sale (PoS) devices to provide for cash withdrawals at PoS by card-holders. The instructions outlined in the circulars limit cash withdrawals to ₹1000/- per day in Tier I and II centres and ₹2000/- per day in Tier III to VI centres and customer charges, if any, on such cash withdrawals to not more than 1% of the transaction amount. To read more, please click [here](#).

VI) e RTGS- Increase in operating hours

The RBI on August 21, 2019, decided to increase the operating hours of the Real Time Gross Settlement (RTGS) system for customers and banks. The RTGS system would be now available from 7.00 am onwards. To read more, please click [here](#).

VII. Research

RBI Releases Forward Looking Surveys

i) Consumer Confidence Survey

The RBI released the results of the July 2019 round of its Consumer Confidence Survey (CCS), which are based on the views of respondents. The survey was conducted in 13 major cities. Responses about perceptions and expectations on the general economic situation, the employment scenario, the overall price situation and their own income and spending were received from 5,351 households. To read more about the survey findings, please click [here](#).

ii) Survey of Professional Forecasters on Macroeconomic Indicators

The RBI has been conducting the Survey of Professional Forecasters (SPF) since September 2007. Thirty-two panellists participated in the 59th round of the survey conducted during July 2019. The survey results are summarised in terms of their median forecasts along with quarterly paths for key variables. To read more about the survey findings, please click [here](#).

iii) Industrial Outlook Survey of the Manufacturing Sector

The RBI released the results of the 86th round of the Industrial Outlook Survey (IOS) conducted during April-June 2019. The survey encapsulates qualitative assessments of the business climate by companies in India's manufacturing sector for Q1:2019-20 and their expectations for Q2:2019-20. To read more about the survey findings, please click [here](#).

iv) Households Inflation Expectations Survey

The RBI released the results of the July 2019 round of the Inflation Expectations Survey of Households (IESH)¹. The survey was conducted in 18 major cities and the results are based on responses from 5,870 urban households. To read more about the survey findings, please click [here](#).

v) OBICUS Survey on the Manufacturing sector

The RBI released the results of the 45th round of the Order Books, Inventories and Capacity Utilisation Survey (OBICUS) for the quarter January-March 2019 covering 843 manufacturing companies. The survey provides a snapshot of demand conditions in India's manufacturing sector. To read more about the survey findings, please click [here](#).

VIII. Enabling Framework for Regulatory Sandbox

The RBI placed on its website the final 'Enabling Framework for Regulatory Sandbox' on August 13, 2019. A total of 381 para-wise comments/feedback from 69 stakeholders including FinTech entities, banks, multilateral agencies, industry associations, payment aggregators, audit and legal firms, government departments, individuals, etc., were received. The suggestions received have been examined and suitably incorporated in the framework. To read more, please click [here](#).

IX. Task Force on Offshore Rupee Markets

The RBI released the report of the Task Force on Offshore Rupee Markets (Chairman: Smt. Usha Thorat, former Deputy Governor, RBI) on August 8, 2019.

The key recommendations of the Task Force are:

- (a) To extend onshore market hours to improve access of overseas users;
- (b) To permit Indian banks to freely offer prices to global clients around the clock;
- (c) To enable Rupee derivatives (settled in foreign currency), to be traded in the International Financial Services Centers (IFSC) in India, to begin with on the exchanges in the IFSC;
- (d) To allow users to undertake forex transactions up to USD 100 million in OTC currency derivative market without the need to establish underlying exposure, and
- (e) To facilitate non-residents to hedge their foreign exchange exposure onshore.

To read the full report, click [here](#).

X. RBI's Top Management Speaks...

❑ Shri Shaktikanta Das, Governor, Reserve Bank of India spoke on [Emerging Challenges to Financial Stability](#) at the Annual Global Banking Conference organised by IBA and FICCI on August 19, 2019 in Mumbai.

❑ Shri B.P. Kanungo, Deputy Governor, Reserve Bank of India delivered a talk on [Trade War: Is it a prelude to deglobalisation?](#) at the Forex Association of India Conference on August 10, 2019 at Singapore.

❑ Shri M.K. Jain, Deputy Governor, Reserve Bank of India gave a talk on [Consumer Protection in a digital financial world](#) at the Annual Conference of Banking Ombudsman in Mumbai on August 5, 2019.