MONETARY & CREDIT INFORMATION REVIEW

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MCIR

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 December 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. Regulation and Supervision:

a) *Infusion of Capital in Overseas Branches and Subsidiaries of Banks and Retention/Repatriation/Transfer of Profits:*

On a review, and with a view to provide operational flexibility to banks, it has been decided that banks meeting the regulatory capital requirements may, with the approval of their Boards, infuse capital in their overseas branches and subsidiaries; retain profits in these centres; and repatriate/transfer profits therefrom, without prior approval of RBI, subject to post facto reporting.

b) *Review of Prudential Norms for Investment Portfolio of Banks:*

In view of the significant developments in the global standards on classification, measurement and valuation of investments, the linkages with the capital adequacy framework as well as progress in the domestic financial markets, there was a need felt to review and update these norms. A discussion paper will be placed on the RBI website for comments.

II. Financial Markets:

Transition from LIBOR to Alternative Reference Rate – External Commercial Borrowings (ECB)/Trade Credit (TC)

In view of the imminent discontinuance of LIBOR, any widely accepted interbank rate or alternative reference rate (ARR) applicable to the currency of borrowing may be used as a benchmark, post discontinuation. To take into account differences in credit risk and term premia between LIBOR and the ARRs, for new foreign currency ECBs and TCs, it is proposed to revise the all-in-cost ceiling from 450 bps to 500 bps and from 250 bps to 300 bps, respectively, over the ARRs.

III. Payment and Settlement Systems

a) *Discussion Paper on Charges in Payment Systems:*

The Reserve Bank will release a discussion paper to take a comprehensive view of the issues involved in the recovery of costs incurred by entities providing digital payment services from merchants/customers and to ensure that such charges are reasonable. The paper will cover all aspects related to charges involved in various channels of digital payments, such as, credit cards, debit cards, prepaid payment instruments (cards and wallets), UPI, etc. and also seek feedback on issues related to convenience fee, surcharging and the measures required to make digital transactions affordable to users.

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Note from the Editor

A very Happy and Healthy New Year to our readers.

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 December 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

b) UPI for Feature Phone Users

A UPI-based payment product for feature phone users is proposed to be launched with the objective to deepen financial penetration and bring feature phone users into the mainstream of digital payments. Feature phone users have limited access to innovative payment products. Although feature phones have NUUP (National Unified USSD Platform) as an option for availing basic payment services using the short code of *99#, the same has not picked up. It is therefore proposed to launch a UPI-based payment product for feature phone users.

c) *Simplification of Process Flow for Small Value Transactions over UPI*

The Reserve Bank has proposed to ensure simplification of process flow for small value transactions over UPI by enabling small value transactions through an "On-device" wallet in UPI app which will conserve banks' system resources, without any change in the transaction experience for the user. UPI is the single largest retail payment system in the country in terms of volume of transactions (14 crore transactions per day, October 2021). Transaction data analysis shows that 50 per cent transactions through UPI were below ₹200, indicating its success. One of the initial objectives of UPI was to replace cash for low value transactions.

d) *Increase in UPI Transaction Limit for Specified Categories*

In order to encourage the use of UPI by retail investors, the Reserve Bank has proposed to enhance the transaction limit for payments through UPI for Retail Direct Scheme and Initial Public Offer applications from ₹2 lakh to ₹5 lakh. Separate instructions to NPCI will be issued shortly. The decision is taken with the objective to facilitate greater participation of retail customers in financial markets. Over time, UPI has also become a popular payment option for Initial Public Offerings (IPOs) since its availability from January 01, 2019. It is reported that IPO applications of ₹2 lakh to ₹5 lakh constitute approximately 10 per cent of subscription applications. To read more, please click here.

II. Regulation

Capital Infusion/Transfer of Profits to Overseas Branches and Subsidiaries

The Reserve Bank on December 8, 2021 decided that prior approval would not be needed for capital infusion to and transfer/repatriation of profits from overseas branches and subsidiaries by banks which meet the regulatory capital requirements (including capital buffers) in order to provide them greater operational flexibility. Instead, the banks shall seek approval of their boards for the same. However, while considering such proposals, banks shall analyse all relevant aspects including inter alia the business plans, home and host country regulatory requirements and performance parameters of their overseas centres. Banks shall also ensure compliance with all applicable home and host country laws and regulations. Banks which do not meet the minimum regulatory capital requirements shall be required to seek prior approval of the Reserve Bank as hitherto. All instances of infusion of capital and/ or retention/transfer/ repatriation of profits in overseas branches and subsidiaries will have to be reported to the Reserve Bank within 30 days. These regulations shall be applicable to scheduled commercial banks other than foreign banks, small finance banks, payment banks and regional rural banks. To read more, please click here.

SLR and MSF – Return to Normal Dispensation

The Reserve Bank on December 10, 2021 decided that banks would need to return to the normal dispensation on maintenance of Statutory Liquidity Ratio (SLR) and Marginal Standing Facility (MSF). Accordingly, banks will be able to dip into the Statutory Liquidity Ratio (SLR) up to two per cent of net demand and time liabilities (NDTL) instead of three per cent for overnight borrowing under the MSF with effect from January 1, 2022. Earlier, on March 27, 2020 with the objective to mitigate the impact of the COVID-19 pandemic on the Indian economy, the Reserve Bank had raised the borrowing limit of scheduled banks (excluding regional rural bank) under the MSF scheme from 2 per cent to 3 per cent of their NDTL. To read more, please click here.

Minimum Capital Requirements for Operational Risk'

As part of convergence of the Reserve Bank's regulations for banks with Basel III standards, the Reserve Bank on December 15, 2021 released the draft master direction on minimum capital requirements for operational risk for comments of stakeholders and members of public. These directions shall be applicable to all commercial banks (excluding local area banks, payments banks, regional rural banks, and small finance banks). The comments on the draft master directions from all stakeholders may be sent by January 31, 2022 through email. To read more, please click here.

Periodic Updation of KYC

The Reserve Bank on December 30, 2021 extended the provisions of the circular on periodic updation of KYC upto March 31, 2022 in view of the uncertainty posed by the new variant of COVID-19. Through the circular dated May 5, 2021, the Reserve Bank had advised banks and financial entities not to place restrictions on the operations of such customer accounts where periodic updation of KYC is due and pending as on date unless warranted under instructions of any regulator/enforcement agency/court of law, etc. To read more, please click here.

III. Supervision

PCA Framework for NBFCs

The Reserve Bank on December 14, 2021 put in place a Prompt Corrective Action (PCA) framework for NBFCs to further strengthen the supervisory tools applicable to NBFCs. The PCA Framework for NBFCs, comes into effect from October 1, 2022, based on the financial position of NBFCs on or after March 31, 2022. In terms of extant regulations, Government NBFCs have been provided time upto March 31, 2022 to adhere to the capital adequacy norms provided for NBFCs. NBFCs have been growing in size and have substantial interconnectedness with other segments of the financial system. The PCA framework was initially introduced by the Reserve Bank for scheduled commercial banks in 2002 with the objective to enable supervisory intervention at appropriate time and require the supervised entities to initiate and implement remedial measures in a timely manner to restore its financial health. The PCA framework is also intended to act as a tool for effective market discipline. The framework does not preclude the Reserve Bank from taking any other action as it deems fit at any time in addition to the corrective actions prescribed in the framework. To read more, please click here.

IV. Foreign Exchange Management

ECB and TC Policy – LIBOR Transition

The Reserve Bank on December 8, 2021 in consultation with the stakeholders decided to make the following changes to the all-in-cost benchmark and ceiling for foreign currency (FCY) external commercial borrowings (ECB) and Trade Credits (TC) policy in view of the changes due to LIBOR transition:

i) Redefining Benchmark Rate for FCY ECBs and TCs:
Benchmark rate in case of FCY ECB/TC shall refer to any widely accepted interbank rate or alternative reference rate (ARR) of six-month tenor as applicable to the currency of borrowing.

ii) Change in all-in-cost ceiling for new ECBs/ TCs:
To take into account differences in credit risk and term premia between LIBOR and the ARRs, the all-in-cost ceiling for new FCY ECBs and TCs has been increased by 50 bps to 500 bps and 300 bps, respectively, over the benchmark rates.

iii) One Time Adjustment in all-in-cost ceiling for existing ECBs/ TCs:
To enable smooth transition of existing ECBs/ TCs linked to LIBOR whose benchmarks are changed to ARRs, the all-in cost ceiling for such ECBs/ TCs has been revised upwards by 100 basis points to 550 bps and 350 bps, respectively, over the ARR.

There shall be no change in the all-in-cost benchmark and ceiling for INR ECBs/ TCs.

Accordingly, the Reserve Bank advised AD Category-I to bring the contents of this circular to the notice of their constituents/customers. To read more, please click here.

Cross-border Transactions - LEI

The Reserve Bank on December 10, 2021 decided that with effect from October 1, 2022, all AD Cat-1 banks shall obtain the Legal Entity Identifier (LEI) number from the resident entities (non-individuals) undertaking capital or current account transactions of ₹50 crore and above (per transaction) under the Foreign Exchange Management Act, 1999. In case of non-availability of LEI information with regard to non-resident counterparts/ overseas entities, AD, Cat-1 banks may process the transactions to avoid disruptions. AD Cat-I banks may encourage concerned entities to voluntarily furnish LEI while undertaking transactions even before October 1, 2022. Once an entity has obtained an LEI number, it must be reported in all transactions of that entity, irrespective of transaction size. Further, AD Cat-I banks shall have the required systems in place to capture the LEI information and ensure that any LEI captured is validated against the global LEI database available on the website of the Global Legal Entity Identifier Foundation. To read more, please click here.

V. Payment and Settlement Systems

Storage of Actual Card Data

The Reserve Bank on December 23, 2021extended the timeline for storing of Card-on-File (CoF) data by six months till June 30, 2022. Post this, such data shall be purged. In addition to tokenisation, industry stakeholders were advised to devise alternate mechanism(s) to handle any use case (including recurring e-mandates, EMI option, etc.) or post-transaction activity (including chargeback handling, dispute resolution, reward / loyalty programme, etc.) that currently involves/requires storage of CoF data by entities other than card issuers and card networks.

As per the guidelines on regulation of payment aggregators and payment gateways, the authorised non-bank payment aggregators and merchants on-boarded by them were prohibited from storing CoF data from June 30, 2021. The timeline was extended upto December 31, 2021. To read more, please click here.

VI. Banker to Government

SPSBs Agency Banks

The Reserve Bank on December 15, 2021 announced that in consultation with the Department of Financial Services, Ministry of Finance, Government of India, it had decided to make scheduled payments banks and scheduled small finance banks eligible to conduct Government agency business. Any payment bank or small finance bank that intends to undertake Government agency business may be appointed as an agent of the Reserve Bank upon execution of an agreement with RBI, provided that the overarching regulatory framework prescribed for these banks is complied with. To read more, please click here.

VII. Financial Markets

Sale of GoI T-Bills and CM Bills

The Reserve Bank on December 8, 2021 announced that banks which had availed of funds under TLTRO and TLTRO 2.0 will be provided with one more option to prepay the outstanding amount. Banks desirous of exercising the above option are advised to submit their requests via email to the Financial Markets Operation Department, Reserve Bank of India. No request for extension of the time window will be entertained. The Reserve Bank reserves the right to decide the quantum of prepayment and / or to accept or reject any or all the requests, either wholly or partially, without assigning any reason thereof. To read more, please click here.

VIII. Reports

Financial Stability Report

The Reserve Bank on December 29, 2021 released the 24th issue of the bi-annual Financial Stability Report (FSR). The FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability and the resilience of the financial system. The highlights of FSR are as follows:

i) The global economic recovery has been losing momentum in the second half of 2021 in the face of resurfacing COVID-19 infections, the new variant Omicron, supply disruptions and bottlenecks, elevated inflationary levels and shifts in monetary policy stances and actions across advanced economies and emerging market economies.

ii) On the domestic front, progress in vaccination has enabled the recovery to regain traction after the debilitating second wave of the pandemic, notwithstanding signs of slowing pace more recently; the corporate sector is gaining strength and bank credit growth is improving.

iii) The capital to risk-weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) rose to a new peak of 16.6 per cent and their provisioning coverage ratio (PCR) stood at 68.1 per cent in September 2021.

iv) Macro stress tests for credit risk indicate that gross gross non-performing asset (GNPA) ratio of SCBs may increase from 6.9 per cent in September 2021 to 8.1 per cent by September 2022 under the baseline scenario and to 9.5 per cent under a severe stress scenario. SCBs would, however, have sufficient capital, both at the aggregate and individual levels, even under stress conditions.

v) Emerging signs of stress in micro, small and medium enterprises (MSME) as also in the micro finance segment call for close monitoring of these portfolios going forward.

To read the full FSR, please log on to the RBI website by clicking here.

Report on Trend and Progress of Banking

The Reserve Bank on December 28, 2021 released the Report on Trend and Progress of Banking in India 2020-21 a statutory publication in compliance with Section 36 (2) of the Banking Regulation Act, 1949. The report presents the performance of the banking sector, including co-operative banks, and non-banking financial institutions during 2020-21 and 2021-22 so far. The Report also offers some perspectives on the evolving outlook for India's financial sector.

The following are the highlights of the report:

i) During 2020-21, the consolidated balance sheet of scheduled commercial banks (SCBs) expanded in size, notwithstanding the pandemic and the resultant contraction in economic activity. In 2021-22 so far, nascent signs of recovery are visible in credit growth. Deposits grew by 10.1 per cent at end-September 2021 as compared with 11.0 per cent a year ago.

ii) Capital to risk weighted assets (CRAR) ratio of SCBs strengthened from 14.8 per cent at end-March 2020 to 16.3 per cent at end-March 2021 and further to 16.6 per cent at end-September 2021, partly aided by higher retained earnings, recapitalisation of public sector banks (PSBs) and capital raising from the market by both PSBs and private sector banks (PVBs).

iii) SCBs' gross non-performing assets (GNPA) ratio declined from 8.2 per cent at end-March 2020 to 7.3 per cent at end-March 2021 and further to 6.9 per cent at end-September 2021.

iv) Return on assets (RoA) of SCBs improved from 0.2 per cent at end-March 2020 to 0.7 per cent at end-March 2021, aided by stable income and decline in expenditure.

v) Some of the policy measures taken by the RBI in response to the COVID-19 pandemic reached the pre-announced sunset dates in 2021-22. Certain liquidity measures have been wound down as a result, while other regulatory measures have been realigned to avoid extended forbearance and risks to financial stability.

vi) Even though initiation of fresh insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) was suspended for a year till March 2021, it constituted one of the major modes of recovery in terms of amount recovered.

vii) The balance sheet growth of urban co-operatives banks (UCBs) in 2020-21 was driven by deposits, while subdued credit growth led to acceleration in investments. Their financial indicators, including capital position and profitability, improved.

viii) The profitability of state co-operative banks and district central co-operative banks improved in 2019-20, while their asset quality deteriorated.

ix) The consolidated balance sheet of NBFCs expanded during 2020-21, driven by credit and investments of non-deposit taking systemically important NBFCs (NBFCs-ND-SI). Their asset quality and capital buffers also improved.

To read the full report, please visit the RBI website by clicking here.

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