*Second Bi-monthly Monetary Policy Statement, 2018-19 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India**

On the basis of an assessment of the current and evolving macroeconomic situation at its meeting today, the Monetary Policy Committee (MPC) decided to:

- increase the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.25 per cent.

Consequently, the reverse repo rate under the LAF stands adjusted to 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.50 per cent.

The decision of the MPC is consistent with the neutral stance of monetary policy 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. The main considerations underlying the decision are set out in the statement below.

Assessment

2. Since the last meeting of the MPC in April, global economic activity has continued to expand, though there has been some easing of momentum. Among advanced economies (AEs), the US economy began the year on a weak note on soft private spending and reduced residential investment; however, there seems to be a rebound in Q2:2018 with strong retail sales and improved employment data. The Euro Area growth decelerated in Q1; recent industrial production data as well as weak consumer and business sentiment suggest a loss of pace. The Japanese economy contracted in Q1, though it is expected to turn around in Q2 as indicated by recent data prints on exports and the manufacturing purchasing managers' index (PMI).

3. Economic activity in major emerging market economies (EMEs) remained largely resilient. The Chinese economy maintained a strong momentum in Q1; more recent data on industrial production and PMI suggest that growth is likely to hold steady in Q2. The Russian economy appears to have picked up in recent months after a soft end to 2017; both manufacturing and services PMI rose in April. In South Africa, growth prospects have improved with the return of political stability as reflected in consumer confidence, manufacturing PMI and retail sales. In contrast, a stream of poor data from Brazil on high unemployment and soft industrial production show that the effects of recession linger.

4. Global trade growth has continued to strengthen, though geo-political tensions have contributed recently to declining export orders and air freight. Crude oil prices rose sharply till May 24 on heightened geo-political tensions, but moderated thereafter on expectations of easing of supplies by the Organisation of Petroleum Exporting Countries (OPEC) and Russia. Base metal prices, especially aluminium, have risen on account of US sanctions on Russia. Gold has witnessed selling pressure on a stronger dollar, but the metal gained last week on political uncertainty in the Euro Area. Inflation pressures have emerged in some key advanced and emerging economies, driven in part by rising commodity prices.

5. Financial markets have been driven mainly by monetary policy expectations and geo-political developments. Equity market performance has varied across regions with modest gains in the AEs on strong Q1 earnings and abating of trade tensions, while stocks in major EMEs have faced sell offs on a rising dollar and expectations of further rate hikes by the

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Fed. The 10-year sovereign yield in the US crossed 3 per cent in mid-May on strong economic data as well as expectations of tighter monetary policy and fiscal expansion, but softened subsequently on safe haven demand; yields softened in other key AEs as well. In most EMEs, however, bond yields have risen on reduced foreign appetite for their debt due to growing dollar shortage in the global market and on prospects of higher interest rates in AEs. In currency markets, the US dollar touched its highest level in May since December 2017. The euro depreciated significantly against the dollar reflecting a combination of factors, including soft growth data for the Euro Area, which suggested that monetary policy normalisation by the European Central Bank could be delayed, and political uncertainty in its southern periphery. EME currencies have, by and large, depreciated against the US dollar.

6. On the domestic front, the Central Statistics Office (CSO) released on May 31 the quarterly estimates of national income accounts for Q4:2017-18 and provisional estimates for 2017-18. Gross domestic product (GDP) growth for 2017-18 has been estimated at 6.7 per cent, up by 0.1 percentage point from the second advance estimates released on February 28. This increase in growth has been underpinned by a significant upward revision in private final consumption expenditure (PFCE) due especially to improved rural demand on the back of a bumper harvest and the government's thrust on rural housing and infrastructure. Quarterly data suggest that the economy grew at 7.7 per cent in Q4:2017-18 – the fastest pace in the last seven quarters. Gross fixed capital formation (GFCF) growth accelerated for three consecutive quarters up to Q4.

7. On the supply side, estimates of agriculture and allied activities have been revised upwards, supported by an all-time high production of foodgrains and horticulture during the year. On a quarterly basis, agriculture growth increased sharply in Q4:2017-18. On April 16, the India Meteorological Department (IMD) forecast a normal south-west monsoon rainfall, which was reaffirmed on May 30. This augurs well for the agricultural sector.

8. Industrial growth also strengthened, reflecting the robust performance of manufacturing, which accelerated for three consecutive quarters in Q4. Capacity utilisation by manufacturing firms increased significantly in Q4:2017-18 as revealed in the latest round of the Reserve Bank's order books, inventories and capacity utilisation survey (OBICUS). The output of eight core industries accelerated in April on account of a sharp expansion in coal production, which reached a 42-month peak. Cement output also posted double-digit growth for the sixth consecutive month in April. However, electricity generation slowed down. As per the early results of the Reserve Bank's April-June round of the industrial outlook survey (IOS), activity is expected to expand at a lower rate in Q1:2018-19 due to a significant rise in input prices and perceptions of softening domestic and external demand conditions. However, the manufacturing PMI remained in an expansionary mode for the tenth consecutive month in May on the back of new domestic orders and exports.

9. Although services sector growth was revised downwards on account of lower growth in some constituents such as trade, hotels, transport and communication, and financial services, it remained robust. Construction activity recorded the highest growth in Q4 in the new series (base 2011-12). Various high frequency indicators also suggest resilient performance of the services sector. Improving sales of tractors and two-wheelers suggest strengthening of rural demand. Commercial vehicle sales also accelerated in April. Revenue-earning freight traffic of railways picked up, driven by improved movement in coal, fertilisers, and cement. Growth in passenger vehicle sales accelerated but port traffic decelerated for the third successive month in April. Domestic air passenger traffic rose significantly in April.

Two key indicators of construction activity showed improvement – cement production growth accelerated and steel consumption turned around. Services PMI moved slightly into contraction in May, reflecting decline in business activity and stagnation in new orders.

10. Retail inflation, measured by the year-on-year change in the CPI, rose sharply to 4.6 per cent in April, driven mainly by a significant increase in inflation excluding food and fuel. Excluding the estimated impact of an increase in house rent allowances (HRAs) for central government employees, headline inflation was at 4.2 per cent in April, up from 3.9 per cent in March. Food inflation moderated for the fourth successive month, pulled down by vegetables due to lower than the usual seasonal increase in their prices, and pulses and sugar which continued to experience deflation. However, within the food group, inflation increased in respect of cereals, fruits, prepared meals, meat and fish.

11. Fuel group inflation declined for the fifth month in a row in April mainly on account of a fall in the inflation of liquefied petroleum gas in line with international prices, and electricity. However, inflation in other major items of fuel such as firewood and chips, dung cake, kerosene and coal inched up. Inflation in the transport and communication sub-group accelerated due to the firming up of international crude oil prices, even though the domestic pass-through to petrol and diesel was incomplete. Inflation also picked up in clothing, household goods and services, health, recreation, education, and personal care and effects.

12. The May 2018 round of the Reserve Bank's survey of households reported a significant rise in households' inflation expectations of 90 basis points (bps) and 130 bps, respectively, for three-month and one-year ahead horizons. Manufacturing firms polled in the Reserve Bank's Industrial Outlook Survey (IOS) reported input price pressures and an increase in selling prices in Q1:2018-19. Firms polled for the manufacturing PMI in May also showed a sharp increase in input and output prices. Farm inputs and industrial raw material costs have risen sequentially. Wage pressures in the rural sector moderated; however, those in the organised sectors remained firm.

13. Liquidity in the system remained generally in surplus during April-May 2018. During April, the Reserve Bank absorbed surplus liquidity of ₹496 billion on a daily net average basis due to increased government spending, especially in the second half of the month. Reflecting easy liquidity conditions, the weighted average call rate (WACR) softened to 5.89 per cent in April (from 5.96 per cent in March). However, surplus liquidity in the system moderated considerably in the first half of May and the system moved into deficit in the third week of May mainly due to inflows on account of the goods and services tax (GST). The Reserve Bank conducted an open market operation purchase auction on May 17, 2018 to inject liquidity of ₹100 billion into the system. The system again turned into surplus in the last week of May reflecting mainly the payment of food subsidies. Surplus liquidity absorbed under the LAF on a daily net average basis declined to ₹142 billion in May. The WACR in May at 5.88 per cent remained broadly at the April 2018 level.

14. India's exports grew in April 2018 after a marginal dip in the preceding month, supported mainly by non-oil exports, particularly engineering goods and chemicals. Import growth decelerated sequentially in April 2018; a significant decline in imports of gold as well as pearl and precious stones more than offset the impact of rising crude oil prices. Nevertheless, the trade deficit expanded in March and April from its level a year ago. External financing remained comfortable in 2017-18. While net foreign direct investment in 2017-18 was broadly comparable with the previous year, net foreign portfolio flows were stronger due to a sharp turnaround in debt inflows. However, foreign

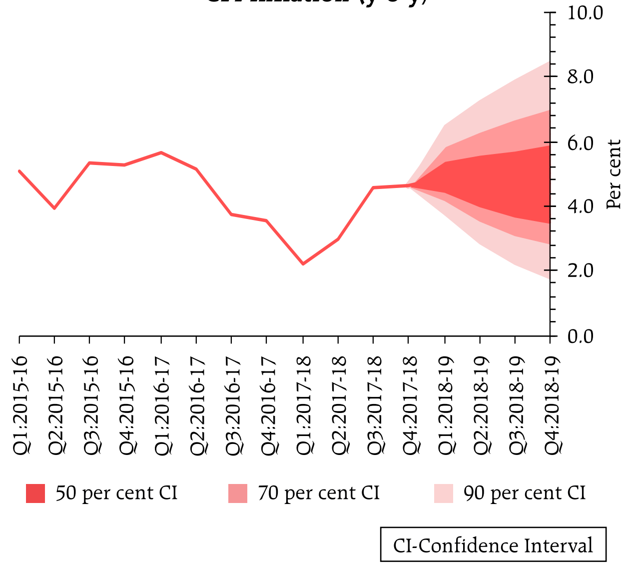
portfolio investors withdrew US$ 6.7 billion on a net basis from the domestic capital market in 2018-19 (up to June 4), reflecting volatility in global financial markets. India's foreign exchange reserves were at US$ 412 billion on June 1, 2018.

Outlook

15. The first bi-monthly resolution of 2018-19 in April projected CPI inflation in the range of 4.7-5.1 per cent in H1:2018-19 and 4.4 per cent in H2, including the HRA impact for central government employees with risks tilted to the upside. Excluding the impact of HRA revisions, CPI inflation was projected at 4.4-4.7 per cent in H1:2018-19 and 4.4 per cent in H2. Actual inflation outcomes since the April policy have evolved broadly on the lines of the projected trajectory. However, there has been an important compositional shift. While the summer momentum in vegetable prices was weaker than the usual pattern, there was an abrupt acceleration in CPI inflation excluding food and fuel.

16. The headline inflation outlook is driven primarily by two countervailing effects. On the one hand, CPI inflation excluding food and fuel rose sharply in April over March by 80 basis points to reach an ex-HRA level of 5.3 per cent, suggesting a hardening of underlying inflationary pressures. Furthermore, since the MPC's meeting in early April, the price of Indian basket of crude surged from US$ 66 a barrel to US$ 74. This, along with an increase in other global commodity prices and recent global financial market developments, has resulted in a firming up of input cost pressures, as also confirmed in the Reserve Bank's IOS for manufacturing firms in Q2:2018-19. The resulting pick-up in the momentum of inflation excluding food, fuel and HRA has imparted persistence into higher CPI projections for 2018-19. On the other hand, food inflation has remained muted over the past few months and the usual seasonal pickup delayed, softening the projections in the short run. Taking

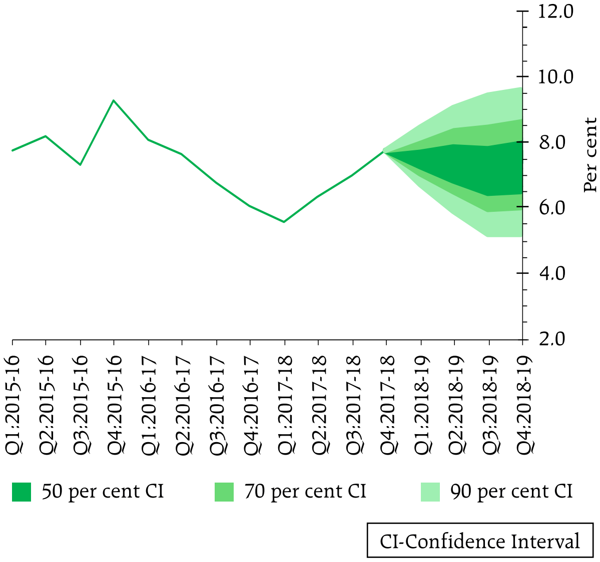
Chart 1: Quarterly Projection of CPI Inflation (y-o-y)



these effects into account, projected CPI inflation for 2018-19 is revised to 4.8-4.9 per cent in H1 and 4.7 per cent in H2, including the HRA impact for central government employees, with risks tilted to the upside (Chart 1). Excluding the impact of HRA revisions, CPI inflation is projected at 4.6 per cent in H1 and 4.7 per cent in H2.

17. Turning to the growth outlook, the CSO's provisional estimates have placed GDP growth for Q4:2017-18 at 7.7 per cent – 70 basis points higher than that in Q3 – given the sharp acceleration in investment and construction activity. With improving capacity utilisation and credit offtake, investment activity is expected to remain robust even as there has been some tightening of financing conditions in recent months. Global demand has also been buoyant, which should encourage exports and provide a further thrust to investment. The sharp rise in petroleum product prices, however, is likely to impact disposable incomes. Consumption, both rural and urban, remains healthy and is expected to strengthen further. According to the early results of the Reserve Bank's IOS, activity in the manufacturing sector is expected to moderate marginally in Q2:2018-19 on account of deterioration

Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)



in the overall business situation and order book. On the basis of an overall assessment, GDP growth for 2018-19 is retained at 7.4 per cent as in the April policy. GDP growth is projected in the range of 7.5-7.6 per cent in H1 and 7.3-7.4 per cent in H2, with risks evenly balanced (Chart 2).

18. A major upside risk to the baseline inflation path in the April resolution has materialised, *viz.*, 12 per cent increase in the price of Indian crude basket, which was sharper, earlier than expected and seems to be durable. Crude oil prices have been volatile recently and this imparts considerable uncertainty to the inflation outlook – both on the upside and the downside. Several other risks remain. First, global financial market developments have emerged as another important source of uncertainty. Second, the significant rise in households' inflation expectations as gathered in the May 2018 round of the Reserve Bank's survey could feed into wages and input costs in the coming months. However, the pass-through to output prices remains muted presently. Third, the staggered impact of HRA revisions by various state governments may push headline inflation up. While the statistical impact of HRA revisions will be looked through, there is a need to watch out for any second round impact on inflation. Fourth, the impact of the revision in the MSP formula for kharif crops is not possible to assess at this stage in the absence of adequate details. Fifth, as forecast by the IMD, if the monsoon is normal and well-distributed temporally and spatially, it may help keep food inflation benign.

19. Against the above backdrop, the MPC decided to increase the policy repo rate by 25 basis points and keep the stance neutral. The MPC reiterates its commitment to achieving the medium-term target for headline inflation of 4 per cent on a durable basis.

20. The MPC notes that domestic economic activity has exhibited sustained revival in recent quarters and the output gap has almost closed. Investment activity, in particular, is recovering well and could receive a further boost from swift resolution of distressed sectors of the economy under the Insolvency and Bankruptcy Code. Geo-political risks, global financial market volatility and the threat of trade protectionism pose headwinds to the domestic recovery. It is important that public finances do not crowd out private sector investment activity at this crucial juncture. Adherence to budgetary targets by the Centre and the States – which appears to be the case thus far – will also ease upside risks to the inflation outlook considerably.

21. Dr. Chetan Ghate, Dr. Pami Dua, Dr. Ravindra H. Dholakia, Dr. Michael Debabrata Patra, Dr. Viral V. Acharya and Dr. Urjit R. Patel voted in favour of the decision. The minutes of the MPC's meeting will be published by June 20, 2018.

22. The next meeting of the MPC is scheduled on July 31 and August 1, 2018.

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for strengthening regulation and supervision; broadening and deepening financial markets; improving currency and debt management; fostering innovation in payment and settlement system; and, facilitating data management.

I. Regulation and Supervision

1. Increase in Liquidity Coverage Ratio (LCR) carve-out from Statutory Liquidity Ratio (SLR)

As per the existing roadmap, scheduled commercial banks have to reach the minimum Liquidity Coverage Ratio (LCR) of 100 per cent by January 1, 2019. Presently, the assets allowed as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing LCR of banks include, *inter alia*, Government securities in excess of the minimum SLR requirement and, within the mandatory SLR requirement, Government securities to the extent allowed by the Reserve Bank under Marginal Standing Facility (MSF) [presently 2 per cent of the bank's NDTL] and under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 9 per cent of the bank's NDTL]. For the purpose of computing LCR, it has been decided that, in addition to the above-mentioned assets, banks will be permitted to reckon as Level 1 HQLAs Government securities held by them upto another 2 per cent of their NDTL under FALLCR within the mandatory SLR requirement. Hence, the total carve-out from SLR available to banks would be 13 per cent of their NDTL. The other prescriptions in respect of LCR remain unchanged.

2. Valuation of State Government Securities

As per extant guidelines on prudential norms for classification, valuation and operation of investment portfolio by banks, the state government securities are valued applying the Yield to Maturity (YTM) method with a uniform mark-up of 25 basis points above the yield of the Central Government securities (G-Secs) of equivalent maturity.

It has now been decided that the securities issued by each state government should be valued based on observed prices. The valuation of traded state government securities shall be at the price at which they have been traded in the market. In case of non-traded state government securities, the valuation shall be based on the state-specific weighted average spread over the yield of the central government securities of equivalent maturity, as observed at primary auctions. The detailed guidelines to this effect will be issued separately by June 20, 2018.

3. Spreading of MTM losses

In the wake of spurt in the yields of government securities, banks were given an option to spread, over four quarters, the mark-to-market losses recorded on their investment portfolio during the quarters ended December 2017 and March 2018. It was also required that banks build an Investment Fluctuation Reserve (IFR) of 2 percent of their holdings in the Available for Sale (AFS) and Held for Trading (HFT) categories to avoid such eventualities. In view of the continuing rise in yield of government securities as also the inadequacy of time to build IFR for many banks, it has been decided to grant banks the option to spread the mark-to-market (MTM) losses on investments held in AFS and HFT portfolio for the quarter ending June 30, 2018, equally over a period of four quarters, commencing from the quarter ending June 30, 2018. The circular in this regard will be issued within a week.

4. Voluntary Transition of Urban Cooperative Banks in to Small Finance Banks

The High Powered Committee on Urban Cooperative Banks (UCB), chaired by Shri R. Gandhi, the then Deputy Governor of Reserve Bank, had, *inter alia*, recommended the voluntary conversion of large Multi-State UCBs into Joint Stock Companies and other UCBs which meet certain criteria into Small Finance

Banks (SFBs). Taking these recommendations into consideration, it has been decided to allow voluntary transition of UCBs meeting the prescribed criteria into SFBs. The detailed scheme will be announced separately.

5. Encouraging formalisation of the MSME Sector

In February 2018, banks and NBFCs were allowed to temporarily classify their exposures to the Goods and Services Tax (GST) registered Micro, Small and Medium Enterprises (MSMEs), having aggregate credit facilities from these lenders up to ₹250 million, as per a 180 day past due criterion, subject to certain conditions. This was done with a view to ease the transition of MSMEs to the formalised sector post their registration under the GST.

Having regard to the input credit linkages and associated issues, it has now been decided to temporarily allow banks and NBFCs to classify their exposure, as per the 180 day past due criterion, to all MSMEs with aggregate credit facilities up to the above limit, including those not registered under GST. Accordingly, eligible MSME accounts, which were standard as on August 31, 2017, shall continue to be classified as standard by banks and NBFCs if the payments due as on September 1, 2017 and falling due thereafter up to December 31, 2018 were/are paid not later than 180 days from their original due date.

In view of the benefits from increasing formalisation of the economy for financial stability, the 180 day past due criterion, in respect of dues payable by GST registered MSMEs from January 1, 2019 onwards, shall be aligned to the extant norm of 90 day past due in a phased manner, whereas for entities that do not get registered under GST by December 31, 2018, the asset classification in respect of dues payable from January 1, 2019 onwards shall immediately revert to the 90 day norm.

Detailed guidelines are being issued separately.

6. Convergence of Priority Sector Lending (PSL) Guidelines for Housing Loans with Affordable Housing definition under Pradhan Mantri Awas Yojana

In order to bring greater convergence of the Priority Sector Lending guidelines for housing loans with the Affordable Housing Scheme, and to give a fillip to the low-cost housing for the Economically Weaker Sections and Lower Income Groups, it has been decided to revise the housing loan limits for PSL eligibility from existing ₹28 lakh to ₹35 lakh in metropolitan centres (with population of ten lakh and above), and from existing ₹20 lakh to ₹25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed ₹45 lakh and ₹30 lakh, respectively. A circular in this regard shall be issued by June 30, 2018.

7. Emerging Developments in Low Ticket Housing

After a careful analysis of the Housing Loans data, it has been observed that the level of NPAs for the ticket size of up to Rupees two lakh has been high and is rising briskly. Banks need to strengthen their screening and follow up in respect of lending to this segment in particular. The Reserve Bank is closely monitoring this sector and will consider appropriate policy response such as a tightening of the LTV ratios and/or an increase in the risk weights, should the need arise.

8. Permitting Core Investment Companies to invest in Infrastructure Investment Trusts (InvITs) as Sponsors

Core Investment Companies (CICs) registered with the Reserve Bank as Non-Bank Financial Companies (NBFCs) primarily invest in group companies and do not carry out any other NBFC activity. They are required to invest in group companies in the form of equity shares, preference shares, bonds, debentures, debt or loans, at least up to 90 per cent of their net assets, while equity investments in group companies must constitute at least 60 per cent of net assets. In order to promote infrastructure development through investment in InvITs, it has been decided to enable CICs to act as sponsors to InvIT issuances and permit them to reckon their holdings of InvIT units as sponsors as part of the sub-limit of 60 percent for equity investments in group companies. Exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum limit in terms of amount and tenor prescribed in this regard by Securities and Exchange Board of India (SEBI) (Infrastructure Investment Trusts) Regulations, 2014. Necessary instructions will be issued within a week.

II. Financial Markets

9. Harmonising Liquidity Adjustment Facility (LAF) Haircuts with International Standards

Presently, the Reserve Bank provides Rupee liquidity to market participants through the Repo/Marginal Standing Facility (MSF) window against eligible collateral. An initial margin of 4 per cent and 6 per cent is currently applied on Central Government Securities (including T-bills) and State Development Loans (SDLs) respectively, submitted as collaterals by participants in Repo/MSF. Since the margin requirement is similar for all eligible securities irrespective of residual maturity, the prevailing system does not differentiate the market risk across securities.

On a review and in line with international standards, it has been decided to require — starting August 1, 2018 — initial margin on collateral on the basis of its residual maturity. The initial margin requirement for Central Government Securities would be in the range of 0.5 per cent to 4 per cent in five different buckets of residual maturity. The initial margin requirement in case of SDLs would be in the range of 2.5 per cent to 6.0 per cent for the same maturity buckets. With a view to incentivising the state governments to get SDLs a public rating, it has been decided that the initial margin requirement for rated SDLs shall be set at 1.0 per cent lower than that of other SDLs for the same maturity buckets, *i.e.*, in the range of 1.5 per cent to 5.0 per cent. A circular in this regard will be issued today.

10. Enhancing participation in Government Securities Market

(i) Short Sale in Government Securities

Short sale in Central Government Securities (G-Secs) was introduced in February 2006 to provide participants with a tool to express two-way view on interest rates and thereby enhance price discovery. Currently, scheduled commercial banks, primary dealers and certain well-managed Urban Cooperative Banks (UCBs) are permitted to undertake short sale transactions. There are entity-wise and (liquid or illiquid) security-wise limits for undertaking short sale transactions. With an objective to deepen further the G-Sec and repo market, it is proposed to liberalise the eligible short sale participants' base as well as relax the entity-wise and security category-wise limits for short selling in G-Sec. A circular in this regard will be issued by the end of June 2018.

(ii) When Issued Market in Government Securities

The 'when issued' (WI) market in the Central Government Securities (G-Secs) was introduced in May 2006, in light of the Fiscal Responsibility and Budget Management (FRBM) Act 2003, to strengthen the debt issuance framework *via* better management and distribution of auction risk. Currently, long positions in the WI market can be taken by anyone eligible to participate in an auction, while only banks and primary dealers (PDs) are allowed to take short positions. Further, short position of banks and PDs is capped at 5 per cent of the issue amount. Participation norms have been gradually eased. With an objective to deepen further the G-Secs market, it is proposed to liberalise the eligible participants' base and relax the entity-wise limits for taking positions in the when issued market. A circular in this regard will be issued by the end of June 2018.

11. Expanding Activities of Standalone Primary Dealers

Standalone Primary Dealers (SPDs) have been gradually permitted to diversify their activities beyond G-sec activities into alternate streams, within acceptable limits. In order to facilitate SPDs to provide comprehensive services to their Foreign Portfolio Investors (FPI) clients, it has been decided to provide the SPDs a limited Foreign Exchange licence. A circular in this regard shall be issued by the end of June 2018.

12. Market Abuse Regulations

Various regulatory initiatives are being steadily undertaken to increase activity and participation in financial markets and redistribute financial exposure of the banking system. Concomitantly, regulations to prevent abusive market practices need to be strengthened. Fixed Income Money Market and Derivatives Association of India (FIMMDA) has developed a fair practice code (FPC) for voluntary adoption by banks and other members. The Foreign Exchange Dealers' Association of India (FEDAI) has also adopted for market participants in the Indian foreign exchange (FX) market, the FX Global Code – a global code of conduct for the wholesale FX market that sets out principles to promote a robust, fair, liquid, open and appropriately transparent market, underpinned by high ethical standards. To take this process further, it is proposed to introduce regulations, in line with the best global practices, to prevent abuse in markets regulated by the Reserve Bank. Draft regulation for consultation will be issued by the end of August 2018.

13. Policy Framework for Central Counter-parties

Central Counter-parties (CCPs) play a critical role in financial markets. CCPs provide guaranteed settlement services in the markets served by them and mitigate counterparty risk for the participants, thereby reducing systemic risk. In order that these entities function in an efficient and effective manner, the Reserve Bank will lay down the framework for the recognition of the foreign CCPs as also the capital requirement and governance framework for all CCPs. These directions will be issued by the end of July 2018.

III. Debt Management

14. Consolidated Sinking Fund and Guarantee Redemption Fund of State Governments

State Governments are maintaining the Consolidated Sinking Fund (CSF) and the Guarantee Redemption Funds (GRF) with the Reserve Bank as buffers for repayment of their liabilities. Currently, State Governments can avail of Special Drawing Facility (SDF) from the Reserve Bank against the collateral of the funds in CSF and GRF. The rate of interest charged is 100 bps below the Repo Rate at which Ways and Means Advances are extended to the State Governments. In order to further incentivise adequate maintenance of these funds by the State Governments and to encourage them to increase the corpus of these funds, it has been decided to lower the rate of interest on SDF from 100 bps below the Repo Rate to 200 bps below the Repo Rate. A circular in this regard will be issued by June 30, 2018.

IV. Payment and Settlement

15. Authorisation of Payment Systems

With the maturing of the retail payments market, it is important that the concentration risk in retail payment systems is minimised from a financial stability perspective. The Reserve Bank plans to encourage more players to participate in and promote pan-India payment platforms so as to give a fillip to innovation and competition in the sector. A policy paper in this regard will be put out for public consultation by September 30, 2018.

V. Currency Management

16. Easing of Challenges Faced by the Visually Challenged in Using Indian Banknotes

The Reserve Bank has been sensitive to the challenges faced by the visually challenged in conducting their day to day business with Indian banknotes. While different fora have been consulted from time to time before making any change in the Indian banknotes, the Reserve Bank is of the view that technological progress has opened up new vistas for making Indian banknotes more recognizable for the visually challenged, facilitating their day to day transactions. Accordingly, it has been decided that the Reserve Bank, in consultation with various entities representing the visually challenged, will explore the feasibility of developing a suitable device or mechanism for aiding them in the identification of Indian banknotes. The Reserve Bank will issue necessary guidelines in this regard within six months.

VI. Data Management

17. High-level Task Force on Public Credit Registry

As indicated in the Statement on Developmental and Regulatory Policies of October 4, 2017, a High Level Task Force on Public Credit Registry (PCR) for India (Chairman: Shri Yeshwant M. Deosthalee) was constituted by the Reserve Bank to review the current availability of information on credit, the adequacy of existing information utilities, and identify gaps that could be filled by a PCR. The Task Force, which submitted its report on April 4, 2018, recommended that with a view to address information asymmetry, foster access to credit, and strengthen the credit culture in the economy, a PCR should be set up by the Reserve Bank. The Reserve Bank has considered the recommendations of the Task Force and decided to set up a PCR in a modular and phased manner. The report of the Task Force will be released for public on the Reserve Bank's website today. An Implementation Task Force (ITF) is being constituted by the Reserve Bank to help design undertake logistics for the next steps in setting up of the PCR.

18. Harmonisation of Data and Definitions for the Liberalised Remittance Scheme

Pursuant to the announcement made in the first bi-monthly Monetary Policy Statement 2018-19 on April 5, 2018, a system for daily reporting of individual transactions under the Liberalised Remittance Scheme (LRS) by Authorised Dealer (AD) banks has been put in place. This system enables the AD banks to view the remittances already sent by an individual during the financial year, thus improving monitoring and ensuring compliance with the LRS limits. Since the said reporting system uses the Permanent Account Number (PAN) of the remitter as a Unique Identifier to aggregate the remitter-wise data, it has been decided that furnishing of PAN, which hitherto was not to be insisted upon while putting through permissible current account transactions of upto USD 25,000, shall now be mandatory for making all remittances under LRS. Further, in the context of remittances allowed under LRS for maintenance of close relatives, it has been decided to align the definition of 'relative' with the definition given in Companies Act, 2013 instead of Companies Act, 1956.