

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures on (i) liquidity management and support to targeted sectors; (ii) regulation and supervision; (iii) debt management; (iv) payment and settlement systems; (v) financial inclusion; and (vi) external commercial borrowings.

I. Liquidity Measures

1. TLTRO on Tap Scheme – Extension of Deadline

With a view to increasing the focus of liquidity measures on revival of activity in specific sectors that have both backward and forward linkages and having multiplier effects on growth, the RBI had announced the TLTRO on Tap Scheme on October 9, 2020 which was available up to March 31, 2021. In addition to the five sectors announced under the scheme on October 21, 2020, 26 stressed sectors identified by the Kamath Committee were also brought within the ambit of sectors eligible under on tap TLTRO on December 4, 2020 and bank lending to NBFCs on February 5, 2021. Liquidity availed by banks under the scheme is to be deployed in corporate bonds, commercial paper, and non-convertible debentures issued by entities in these sectors; it can also be used to extend bank loans and advances to these sectors. Investments made by banks under this facility can be classified as held to maturity (HTM) even above the 25 per cent of total investment permitted to be included in the HTM portfolio. All exposures under this facility are exempted from reckoning under the large exposure framework (LEF). On a review, it has now been decided to extend the TLTRO on Tap Scheme by a period of six months, *i.e.*, till September 30, 2021.

2. Liquidity Facility for All India Financial Institutions

To support the continued flow of credit to the real economy in the aftermath of the COVID-19 pandemic,

special refinance facilities for a total amount of ₹75,000 crore were provided during April-August 2020 to all India financial institutions (AIFIs) – the National Bank for Agriculture and Rural Development (NABARD); the Small Industries Development Bank of India (SIDBI); the National Housing Bank (NHB); and the EXIM Bank. These facilities were available for a period of one year. NABARD, SIDBI and NHB will repay the facilities extended to them during April-May 2020. In consonance with the policy objective of nurturing the still nascent growth impulses, it has been decided to extend fresh support of ₹50,000 crore to the AIFIs for new lending in 2021-22. Accordingly, NABARD will be provided a special liquidity facility (SLF) of ₹25,000 crore for a period of one year to support agriculture and allied activities, the rural non-farm sector and non-banking financial companies-micro finance institutions (NBFC-MFIs). SLF of ₹10,000 crore will be extended to NHB for one year to support the housing sector. To meet the funding requirements of micro, small and medium enterprises (MSMEs), SIDBI will be sanctioned ₹15,000 crore under this facility for a period of upto one year. All these three facilities will be available at the prevailing policy repo rate.

II. Regulation and Supervision

3. Enhancement of limit of maximum balance per customer at end of the day from ₹1 lakh to ₹2 lakh for Payments Banks

The extant "Guidelines for Licensing of Payments Banks" issued on November 27, 2014 allow payments banks to hold a maximum balance of ₹ 1 lakh per individual customer. Based on a review of performance of payments banks and with a view to encourage their efforts for financial inclusion and to expand their ability to cater to the needs of their customers, including MSMEs, small traders and merchants, it has been decided to enhance the limit of maximum balance at end of the day from ₹1 lakh to ₹2 lakh per individual customer. A circular in this regard shall be issued separately.

4. Asset Reconstruction Companies – Constitution of a Committee

After enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act in 2002, regulatory guidelines for Asset Reconstruction Companies (ARCs) were issued in 2003 to enable development of this sector and to facilitate smooth functioning of ARCs. Since then, while ARCs have grown in number and size, their potential for resolving stressed assets is yet to be realised fully. It is, therefore, proposed to constitute a Committee to undertake a comprehensive review of the working of ARCs in the financial sector ecosystem and recommend suitable measures for enabling such entities to meet the growing requirements of the financial sector. Details of the constitution of the committee and its terms of reference will be announced separately.

5. Permitting banks to on-lend through NBFCs

Recognizing the role played by NBFCs in providing credit at the bottom of the pyramid to the sectors which contribute significantly to the economic growth in terms of export and employment, and with a view to augment the liquidity position of the NBFCs, it was decided in August 2019 to allow banks to classify lending to registered NBFCs (other than MFIs) as Priority Sector Lending (PSL) up to 5 per cent of a bank's total PSL, for on-lending to Agriculture/MSME/Housing till March 31, 2020. This dispensation was later extended up to March 31, 2021. An amount of around ₹37,000 crore has been lent by banks to NBFCs for on-lending to the specified priority sectors by December 2020. With a view to ensure continued availability of credit to these sectors to aid faster economic recovery, it has been decided to extend the PSL classification for lending by banks to NBFCs for 'on-lending' to the above sectors for six months, *i.e.* up to September 30, 2021.

6. Priority Sector Lending (PSL) guidelines- Enhancement of Loan limit against eNWR/NWR

With a view to encourage farm credit to individual farmers against pledge/hypothecation of agricultural produce and leverage the inherent safety of Negotiable Warehouse Receipts (NWRs)/electronic-NWRs(e-NWRs) issued by the warehouses registered and regulated by Warehousing Development and Regulatory Authority (WDRA), it has been decided to enhance the loan limit from ₹50 lakh to ₹75 lakh per borrower against the pledge/hypothecation of agricultural produce backed by NWRs/(e-NWRs) issued by warehouses registered and regulated by WDRA. The Priority Sector loan limit backed by other Warehouse Receipts will continue to be ₹50 lakh per borrower. The circular in this regard will be issued separately.

III. Debt Management

7. Review of Way and Means Advances (WMA) limits for the State Governments/UTs

An Advisory Committee (Chairman: Shri Sudhir Shrivastava) was constituted by the Reserve Bank in August 2019 to review the Ways and Means Advances (WMA) limits for State Governments/UTs and examine other related issues. The Committee has recommended an overall revised limit of ₹47,010 crore for all states, as against the current limit of ₹32,225 crore (fixed in February 2016), representing an increase of about 46%. The committee also recommended the continuation of the enhanced interim WMA limit of ₹ 51,560 crore (60 per cent increase in the current limits allowed by the Reserve Bank during the last fiscal to help states/UTs to tide over the difficulties faced by them during the pandemic) for a further period of six months *i.e.*, from April 1, 2021 up to September 30, 2021. The Reserve Bank has accepted both the recommendations.

IV. Financial Inclusion

8. Financial Inclusion Index

Financial Inclusion has been viewed as a key enabler for achieving inclusive and sustainable development worldwide. This has been a thrust area for Government, Reserve Bank and other regulators, with a number of steps having been taken and significant progress made over the years. To measure the extent of financial inclusion in the country, the Reserve Bank will construct and periodically publish a "Financial Inclusion Index" (FI Index). The FI Index would be based on multiple parameters and shall reflect the broadening and deepening of financial inclusion in the country. To begin with, the FI Index will be published annually in July for the financial year ending previous March.

V. Payments Systems

9. Centralised Payment Systems (CPS), viz- RTGS and NEFT – Membership for entities other than banks

Membership to the RBI-operated Centralised Payment Systems (CPSs) – RTGS and NEFT – are so far limited to banks, with a few exceptions, such as specialised entities like clearing corporations and select development financial institutions. Over the last few years, the role of non-bank entities in payment space (e.g. Prepaid Payment Instrument (PPI) issuers, Card Networks, White Label ATM (WLA) operators, Trade Receivables Discounting System (TReDS) platforms), has grown in importance and volume, as they have innovated by leveraging technology and offering customised solutions to users. To reinforce this trend and encourage participation of non-banks across payment systems, it is proposed to enable, in a phased manner, payment system operators, regulated by the Reserve Bank, to take direct membership in CPSs. This facility is expected to minimise settlement risk in the financial system and enhance the reach of digital financial services to all user segments. These entities will, however, not be eligible for any liquidity facility

from the Reserve Bank to facilitate settlement of their transactions in these CPSs. Necessary instructions will be issued separately.

10. Interoperability of Prepaid Payment Instruments (PPIs), and Increase in account limit to ₹ 2 lakh

To promote optimal utilisation of payment instruments (like cards, wallets etc.), and given the constraint of scarce acceptance infrastructure (like PoS devices, ATMs, QR codes, bill-payment touch points, etc.), Reserve Bank of India has been stressing on the benefits of interoperability amongst the issuing and acquiring entities alike, banks or non-banks. The Master Direction on Issuance and Operation of PPIs dated October 11, 2017 laid down a road-map for a phased implementation of interoperability amongst PPIs issued by banks and non-banks. Thereafter, the guidelines issued in October 2018 enabled interoperability, albeit on a voluntary basis, insofar as the PPIs were full-KYC (they met all Know Your Customer requirements). Despite a passage of two years, migration towards full-KYC PPIs, and therefore interoperability, is not significant. It is, therefore, proposed to make interoperability mandatory for full-KYC PPIs and for all acceptance infrastructure. To incentivise the migration of PPIs to full-KYC, it is proposed to increase the limit of outstanding balance in such PPIs from the current level of ₹1 lakh to ₹2 lakh. Necessary instructions will be issued separately.

11. Permitting Cash Withdrawal from Full-KYC PPIs issued by Non-banks

Presently, cash withdrawal is allowed only for full-KYC PPIs issued by banks and this facility is available through ATMs and PoS terminals. Holders of such PPI, given the comfort that they can withdraw cash as required, are less incentivised to carry cash and consequently more likely to perform digital transactions. As a confidence-boosting measure, it is proposed to allow the facility of cash withdrawal, subject to a limit, for full-KYC PPIs of non-bank PPI issuers as well. The measure, in conjunction with

the mandate for interoperability, will give boost to migration to full-KYC PPIs and would also complement the acceptance infrastructure in Tier III to VI centres. Necessary instructions will be issued separately.

VI. External Commercial Borrowings

12. Relaxation in the period of parking of External Commercial Borrowing (ECB) proceeds in term deposits

Under the extant ECB framework, ECB borrowers are allowed to place ECB proceeds in term deposits

with AD Category-I banks in India for a maximum period of 12 months. In view of the difficulty faced by borrowers in utilizing already drawn down ECBs due to Covid-19 pandemic induced lockdown and restrictions, it has been decided to relax the above stipulation as a one-time measure, with a view to provide relief. Accordingly, unutilised ECB proceeds drawn down on or before March 1, 2020 can be parked in term deposits with AD Category-I banks in India prospectively up to March 1, 2022. Guidelines in this regard will be issued separately.