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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for improving credit flows to certain sectors; reinforcing monetary transmission; strengthening regulation and supervision; broadening and deepening financial markets; and improving payment and settlement systems.

I. Liquidity Management, Monetary Transmission and Credit Flows

1. Revised Liquidity Management Framework

As announced in the [Statement on Developmental and Regulatory Policies of June 6, 2019](#), an Internal Working Group was set up to review the liquidity management framework with a view to simplifying it and to suggest measures to clearly communicate the objectives and the toolkit for liquidity management. The Group's [report](#) was placed on the RBI's website on September 26, 2019 for comments from stakeholders and members of the public. Based on the feedback received, it has been decided to fine-tune the existing liquidity management framework. The key elements of the revised framework are set out below:

- (i) Liquidity management is the operating procedure of monetary policy; the weighted average call rate (WACR) will continue to be its operating target.
- (ii) The liquidity management corridor is retained, with the marginal standing facility (MSF) rate as its upper bound (ceiling) and the fixed rate reverse repo rate as the lower bound (floor), with the policy repo rate in the middle of the corridor.
- (iii) The width of the corridor remains unchanged at 50 basis points – the reverse repo rate being 25 basis points below the repo rate and the MSF rate 25 basis points above the repo rate.
- (iv) With the WACR being the single operating target, the need for specifying a one-sided target for liquidity provision of one percent of net demand and time liabilities (NDTL) does not arise. Accordingly, the daily fixed rate repo and four 14-day term repos every fortnight being conducted, at present, are being withdrawn. However, the Reserve

Bank will ensure adequate provision/absorption of liquidity as warranted by underlying and evolving market conditions - unrestricted by quantitative ceilings - at or around the policy rate.

- (v) Instruments of liquidity management will include fixed and variable rate repo/reverse repo auctions, outright open market operations (OMOs), forex swaps and other instruments as may be deployed from time to time to ensure that the system has adequate liquidity at all times.
- (vi) A 14-day term repo/reverse repo operation at a variable rate and conducted to coincide with the cash reserve ratio (CRR) maintenance cycle would be the main liquidity management tool for managing frictional liquidity requirements.
- (vii) The main liquidity operation would be supported by fine-tuning operations, overnight and/or longer, to tide over any unanticipated liquidity changes during the reserve maintenance period.
- (viii) In addition, the Reserve Bank will conduct, if needed, longer-term variable rate repo/reverse repo operations of more than 14 days.
- (ix) The current requirement of maintaining a minimum of 90 per cent of the prescribed CRR on a daily basis will continue.
- (x) Standalone Primary Dealers (SPDs) would be allowed to participate directly in all overnight liquidity management operations.
- (xi) The margin requirements under the Liquidity Adjustment Facility (LAF) would be reviewed on a periodic basis; the margin requirement for reverse repo transactions, however, would continue to be 'Nil'.
- (xii) In order to improve communication on the Reserve Bank's liquidity management framework and procedures, the following measures are being introduced (a) the Press Release detailing Money Market Operations (MMO) would be modified suitably to show both the daily flow impact as well as the stock impact of the Reserve Bank's liquidity operations; (b) a quantitative assessment of durable liquidity conditions of the banking system on a fortnightly basis would be published with a lag of one fortnight; and (c) periodic consultations will be conducted with market participants and other stakeholders.

2. Long Term Repo Operations (LTROs) for Improving Monetary Transmission

Since June 2019, the Reserve Bank has ensured that comfortable liquidity is available in the system in order to facilitate the transmission of monetary policy actions and flow of credit to the economy. These efforts are being carried forward with a view to assuring banks about the availability of durable liquidity at reasonable cost relative to prevailing market conditions.

This should encourage banks to undertake maturity transformation smoothly and seamlessly so as to augment credit flows to productive sectors. Accordingly, it has been decided that from the fortnight beginning on February 15, 2020, the Reserve Bank shall conduct term repos of one-year and three-year tenors of appropriate sizes for up to a total amount of ₹ 1,00,000 crore at the policy repo rate. Details about the LTRO facility are being issued separately.

3. Incentivising Bank Credit to Specific Sectors

Alongside sustained efforts to improve monetary transmission, the Reserve Bank is actively engaged in revitalizing the flow of bank credit to productive sectors having multiplier effects to support impulses of growth. As a part of this, it has now been decided that scheduled commercial banks will be allowed to deduct the equivalent of incremental credit disbursed by them as retail loans for automobiles, residential housing and loans to micro, small and medium enterprises (MSMEs), over and above the outstanding level of credit to these segments as at the end of the fortnight ended January 31, 2020 from their net demand and time liabilities (NDTL) for maintenance of cash reserve ratio (CRR). This exemption will be available for incremental credit extended up to the fortnight ending July 31, 2020.

II. Regulation and Supervision

4. External Benchmarking of New Floating Rate Loans by Banks to Medium Enterprises

In pursuance of the recommendations of an Internal Study Group (Chairman: Dr. Janak Raj), all new floating rate personal or retail loans and floating rate loans to micro and small enterprises (MSEs) extended by banks were linked to external benchmarks, *viz.*, (i) the policy repo rate; or (ii) any benchmark market interest rate produced by the Financial Benchmarks India Private Ltd. (FBIL), including Treasury bill rates effective October 1, 2019. Subsequent to the introduction of an external benchmark system, the monetary transmission has improved to the sectors where new floating rate loans have been linked to the external benchmark. With a view to further strengthening monetary transmission, it has been decided to link pricing of loans by scheduled commercial banks for the medium enterprises also to an external benchmark effective April 1, 2020. Detailed guidelines to this effect will be issued separately.

5. Extension of One-time Restructuring Scheme for MSME advances

The Micro, Small and Medium Enterprises (MSMEs) sector plays an important role in the growth of the Indian economy, contributing over 28 per cent of the GDP¹, more than 40 per cent of exports², while creating employment for about 11 crore people³. Considering the importance of MSMEs in the Indian economy and for creating an enabling environment for the sector in its efforts towards formalisation, a one-time restructuring of loans to MSMEs that were in default but 'standard' as on January 1, 2019, was permitted without an asset classification downgrade. The restructuring of the borrower account was to be implemented by March 31, 2020. The scheme has provided relief to a large number of MSMEs. As the process of formalisation of the MSME sector has a positive impact on financial stability and this process is still underway, it has been decided to extend the benefit of one-time restructuring without an asset classification downgrade to standard accounts of GST registered MSMEs that were in default as on January 1, 2020. The restructuring under the scheme has to be implemented latest by December 31, 2020. This will benefit the eligible MSME entities which could not be restructured under the provisions of the [circular dated January 1, 2019](#) as also the MSME entities which have become stressed thereafter. It is re-emphasised that this is a one-time regulatory dispensation. Detailed guidelines, in this regard, will be issued shortly.

6. Guidelines on Projects under Implementation in Commercial Real Estate sector

It has been decided to permit extension of date of commencement of commercial operations (DCCO) of project loans for commercial real estate, delayed for reasons beyond the control of promoters, by another one year without downgrading the asset classification, in line with treatment accorded to other project loans for non-infrastructure sector. This would complement the initiatives taken by the Government of India in the real estate sector. The detailed instructions will be issued shortly.

7. Regional Rural Banks - Permission for Merchant Acquiring Business

To give a fillip to digital banking and enabling regional rural banks (RRBs) to provide cost effective and user-friendly solutions to their customers, it has been decided to allow RRBs, like other commercial banks, to act as merchant acquiring banks, using Aadhaar Pay – BHIM app and POS terminals. The detailed instructions in this regard will be issued today.

¹ Annual Report of Ministry of MSME, 2018-19

² Unlocking the Potential of MSME Exports - Strategy Action Plan of Ministry of MSME, November 01, 2018

³ Annual Report of Ministry of MSME, 2018-19

8. Proposed Changes in Regulations Applicable to Housing Finance Companies (HFCs) for Public Comments

Post transfer of regulation of HFCs from National Housing Bank (NHB) to Reserve Bank with effect from August 09, 2019, a [Press Release dated August 13, 2019](#) was issued stating that Reserve Bank will carry out a review of the extant regulatory framework applicable to HFCs and issue revised regulations in due course, and till such time HFCs shall continue to comply with the directions and instructions issued by NHB. It is proposed to place the draft revised regulations on the Bank's website by the end of this month, for public comments.

III. Financial Markets

9. Deepening of Rupee Interest Rate Derivative Market

Currently, market makers undertaking rupee interest rate derivative (IRD) transactions with non-residents by way of 'back-to-back' arrangements are required to recognise all rupee IRD transactions undertaken by their related entities globally, in their books in India. This arrangement is proposed to be extended to cover all market makers, whether or not they undertake back-to-back transactions. It is accordingly proposed that all rupee IRD transactions of market makers and their related entities globally, shall be accounted for in India. This measure would encourage higher non-resident participation, enhance the role of domestic market makers in the offshore market, improve transparency, and achieve better regulatory oversight. The revised draft directions shall be issued by end-March 2020.

10. Margin Requirements for Non-Centrally Cleared Derivatives

Well-established margining arrangements for financial contracts contribute to financial stability by enhancing credibility of the market mechanism and discouraging excessive risk-taking. To improve safety of settlement of over-the-counter (OTC) derivatives that are not centrally cleared, following the G-20 recommendations, the Reserve Bank had issued a discussion paper to implement global practices related to margin requirements for such derivatives. The introduction of legislation for netting of financial transactions proposed in the Union Budget 2020-21 would be a significant enabler for efficient margining. It has, therefore, been decided to issue the directions regarding exchange of variation margin (VM) for non-centrally cleared derivatives (NCCDs) by end-March 2020. Draft directions on exchange of initial margin (IM) for NCCDs will be issued by end-June 2020.

11. Inter-operability of Depositories

In continuation of efforts to facilitate interoperability of Government securities depositories, as announced in the Union Budget 2019-20, the Reserve Bank will modify its Government securities registry (the PDO-NDS system) to include constituent details in the Constituent Subsidiary General Ledger (CSGL) accounts. This is expected to fuel interest of retail investors to invest in Government securities. The upgrade is expected to be made operational by end of July 2020.

IV. Payment and Settlement System

12. Digital Payments Index

Digital payments in India have been growing rapidly. The Reserve Bank shall construct and periodically publish a composite “Digital Payments Index” (DPI) to capture the extent of digitisation of payments effectively. The DPI would be based on multiple parameters and shall reflect accurately the penetration and deepening of various digital payment modes. The DPI will be made available from July 2020 onwards.

13. Framework to Establish Self-Regulatory Organisation (SRO) for Digital Payment System

With substantial growth in digital payments and maturity gained by entities in the payment ecosystem, it is desirable to have a Self-Regulatory Organisation (SRO) for orderly operations of the entities in the payment system. The Reserve Bank will put in place a framework for establishing an SRO for the digital payment system by April 2020 with a view to fostering best practices on security, customer protection and pricing, among others. The SRO will serve as a two-way communication channel between the players and the regulator/supervisor.

14. Pan India Cheque Truncation System (CTS)

The Cheque Truncation System (CTS), which is currently operational at the major clearing houses of the country, has stabilised well and it has made large efficiency gains. In view of this, a pan India CTS will be made operational by September 2020.