

MONETARY & CREDIT INFORMATION REVIEW



MCIR

Volume XIX Issue 1 April 2023



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Note from the Editor

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 April 2023 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. Monetary Policy

Governor's Monetary Policy Statement, April 6, 2023

The year 2023 began on a promising note as supply conditions were improving, economic activity remained resilient, financial markets exuded greater optimism and central banks were steering their economies towards a soft landing. In just a few weeks during March, this narrative has undergone a dramatic shift. The global economy is now witnessing a renewed phase of turbulence with fresh headwinds from the banking sector turmoil in some advanced economies. Bank failures and contagion risk have brought financial stability issues to the forefront. Given the stubbornness in inflation, central banks continue to tighten monetary policy, although at a reduced pace. Inflation globally has moderated in the recent months, but its descent to the target is proving to be long and arduous.¹ These were the opening remarks of the Governor in his first monetary policy statement for the financial year 2023-24 announced on April 6, 2023.

The Governor further recalled the quote of the former chairman of the US Federal Reserve Alan Greenspan, 'Uncertainty is the defining characteristic of the monetary policy landscape.' This, he was talking in an era of great moderation and in more normal times compared to today's situation. What we are witnessing today is unprecedented uncertainty in geopolitics, economic activity, price pressures and financial markets never seen before. One can imagine the magnitude of challenges central banks and other policy makers face in today's world.

The Monetary Policy Committee (MPC) met on 3rd, 5th and 6th April 2023 and assessed the macroeconomic situation and its outlook. It decided unanimously to keep the policy repo rate unchanged at 6.50 per cent in this meeting with readiness to act, should the situation so warrant. Consequently, the standing deposit facility (SDF) rate will remain unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. The MPC also decided by a majority of 5 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. Let me emphasise that the decision to pause on the repo rate is for this meeting only.

I would now like to explain the MPC's rationale for these decisions on the policy rate and the stance. While the recent high frequency indicators suggest some improvement in global economic activity, the outlook is now tempered by additional downside risks from financial stability concerns. Headline inflation is moderating but remains well above the targets of central banks. These developments have led to heightened volatility in global financial markets as reflected in sizeable two-way movements in bond yields, fall in equity markets and the US dollar shedding its gains from its peak of September 2022.

Amidst this volatility, the banking and non-banking financial service sectors in India remain healthy and financial markets have evolved in an orderly manner. Economic activity remains resilient and real GDP growth is expected to have been 7.0 per cent in 2022-23. Consumer price inflation, however, has increased since December 2022, driven by price pressures in cereals, milk and fruits. Core inflation remains elevated. To read more, please click [here](#).

Resolution of the Monetary Policy Committee

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on April 6, 2023 decided to:

- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent. The standing deposit facility (SDF) rate accordingly remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.
- Remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

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

This Statement sets out various developmental and regulatory policy measures relating to i) Financial Markets, ii) Regulation and Supervision and (iii) Payment and Settlement Systems.

i) Financial Markets

1. Developing an Onshore Non-deliverable Derivatives Market

Banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBUs) were permitted to transact in INR Non-deliverable foreign exchange derivative contracts (NDDCs) with non-residents and with each other with effect from June 1, 2020. With a view to develop the onshore INR NDDC and to provide residents with the flexibility to efficiently design their hedging programmes, it has been decided to permit banks with IBUs to offer INR NDDCs to resident users in the onshore market. These banks will have the flexibility of settling their NDDC transactions with non-residents and with each other in foreign currency or in INR while transactions with residents will be mandatorily settled in INR. Related directions are being issued separately.

ii) Regulation and Supervision

2. Enhancing Efficiency of Regulatory Processes

Various entities are required to obtain license/authorisation to carry out activities regulated by RBI. Further, regulated entities are required to seek certain regulatory approvals from RBI under various statutes/regulations periodically. Currently, the application and approval processes for the same take place in varied on-line and off-line modes. The Union Budget for 2023-24 has announced the need to simplify, ease and reduce cost of compliance by financial sector regulators within laid down time limits to decide the applications under various regulations. It has, therefore, been decided to develop a secured web based centralised portal named as 'PRAVAAH' (Platform for Regulatory Application, Validation And Authorisation) which will gradually extend to all types of applications made to RBI across all functions.

3. Development of Centralised Web portal for Public to Search Unclaimed Deposits

The deposits remaining unclaimed for 10 years in a bank are transferred to the 'Depositor Education and Awareness' (DEA) Fund maintained by the Reserve Bank of India. Depositors' protection being an overarching objective, RBI has been taking various measures to ensure that newer deposits do not turn unclaimed and existing unclaimed deposits are returned to the rightful owners or beneficiaries after following due procedure. On the second aspect, banks display the list of unclaimed deposits on their website. In order to improve and widen the access of depositors/beneficiaries to such data, RBI has decided to develop a web portal to enable search across multiple banks for possible unclaimed deposits based on user inputs. The search results will be enhanced by use of certain AI tools.

4. Grievance Redress Mechanism relating to Credit Information Reporting by Credit Institutions and Credit information provided by Credit Information Companies

With the increase in customer complaints regarding credit information reporting and the functioning of credit

information companies (CICs), it has been decided to put in place a comprehensive framework for strengthening and improving the efficacy of the grievance redress mechanism and customer service provided by the credit institutions (CIs) and CICs. For this purpose, the CICs have been brought under the aegis of the Reserve Bank Integrated Ombudsman Scheme (RB-IOS). In addition, it is also proposed to put in place the following measures: a compensation mechanism for delayed updation/rectification of credit information; a provision for SMS/ email alerts to customers when their credit information are accessed from CICs; a timeframe for ingestion of data received by CICs from Credit Institutions; and disclosures relating to number and nature of customer complaints received on the website of CICs. Detailed guidelines in this regard would be issued shortly.

iii) Payment and Settlement Systems

5. Operation of Pre-Sanctioned Credit Lines at banks through the UPI

Unified Payments Interface (UPI) is a robust payments platform supporting an array of features. Presently it handles 75% of the retail digital payments volume in India. The UPI system has been leveraged to develop products and features aligned to India's payments digitisation goals. Recently, RuPay credit cards were permitted to be linked to UPI. At present, UPI transactions are enabled between deposit accounts at banks, sometimes intermediated by pre-paid instruments including wallets. It is now proposed to expand the scope of UPI by enabling transfer to / from pre-sanctioned credit lines at banks, in addition to deposit accounts. In other words, UPI network will facilitate payments financed by credit from banks. This can reduce the cost of such offerings and help in development of unique products for Indian markets. To read more, please click [here](#).

Minutes of MPC

The 42nd meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held on April 3, 5 and 6, 2023.

Accordingly, under Section 45ZL of the Reserve Bank of India Act, 1934; the Reserve Bank published the minutes of the proceedings of the meeting on April 20, 2023, i.e., the 14th day after meeting of the Monetary Policy Committee. To read more, please click [here](#).

II. Regulation

Registration of CIC

The Reserve Bank on April 10, 2023 undertook a comprehensive review of the system of processing of applications for registration as Core Investment Companies (CICs) to make the registration process smoother and hassle free. Accordingly, the application form has been revamped to make it structured and aligned with the extant CIC regulations. Also, the number of documents to be furnished along with the application form has been reduced to 18 from the existing set of 52 documents to make the registration process user friendly. To read more, please click [here](#).

Outsourcing of IT Services

The Reserve Bank on April 10, 2023 finalised the detailed norms for the outsourcing of IT services by regulated entities (REs) to ensure that such arrangements do not undermine their responsibilities and obligations to customers. The underlying principle of the directions is to ensure that outsourcing arrangements neither diminish REs' ability to fulfil its obligations to customers nor impede effective supervision by the central bank. With a view to providing REs adequate time to comply with the requirements, the norms will come into effect on October 1, 2023. To read more, please click [here](#).

Acceptance of Green Deposits

The Reserve Bank on April 11, 2023 put in place a framework for acceptance of Green Deposits for the Regulated Entities (REs). The purpose/rationale of the framework is to encourage REs to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities/projects. REs shall issue green deposits as cumulative/non-cumulative deposits. These deposits shall be denominated in Indian Rupees only. The framework shall come into effect from June 1, 2023. To read more, please click [here](#).

Review of Requirement of CCyB

The Reserve Bank on April 20, 2023 put in place the framework on countercyclical capital buffer (CCyB) in terms of guidelines issued on February 5, 2015 wherein it was advised that the CCyB would be activated as and when the circumstances warranted. The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators. Based on the review and empirical analysis of the CCyB indicators, it has been decided that it is not necessary to activate CCyB at this point in time. To read more, please click [here](#).

Provisioning for Standard Assets by UCBs

The Reserve Bank on April 24, 2023 harmonised the provisioning norms for standard assets applicable to all categories of Primary (Urban) Co-operative Banks, irrespective of their Tier in the revised framework. Accordingly, the standard asset provisioning norms applicable to Tier I, Tier 2, Tier 3 and Tier 4 UCBs under the revised framework shall be as under:

- i) Direct advances to agriculture and SME sectors which are standard, shall attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis.
- ii) Advances to commercial real estate (CRE) sector which are standard shall attract a uniform provisioning requirement of 1.00 per cent of the funded outstanding on a portfolio basis.
- iii) For advances to commercial real estate - residential housing (CRE-RH) sector, which are standard, the provisioning requirement shall be 0.75 per cent
- iv) For all other advances, banks shall maintain a uniform general standard asset provision of a minimum of 0.40 per cent of the funded outstanding on a portfolio basis.

To read more, please click [here](#).

III. Foreign Exchange Management

APConnect

The Reserve Bank on April 6, 2023 notified that a software application called 'APConnect' has been developed for processing of application for licensing of Full Fledged Money Changers (FFMCs), non-bank AD Cat-II, authorisation as MTSS Agent, renewal of existing licence/authorisation, for seeking approval as per the extant instructions and for submission of various statements/returns by FFMCs and non-bank AD Cat II. The application can be accessed at <https://apconnect.rbi.org.in/entity>. To read more, please click [here](#).

Online submission of Form A2

The Reserve Bank on April 12, 2023 permitted AD Category-II entities to allow online submission of Form A2. AD Category-II entities shall frame appropriate guidelines with the approval of their Board within the ambit of extant statutory and regulatory framework. To read more, please click [here](#).

Remittances to IFSCs

The Reserve Bank on April 26, 2023 with an objective to align the Liberalised Remittance Scheme (LRS) for International Financial Services Centres (IFSCs) amended para 2 (ii) of the A.P. (DIR Series) Circular dated February 16, 2021, as 'Resident Individuals may also open a Foreign Currency Account (FCA) in IFSCs, for making the above permissible investments under LRS.' To read more, please click [here](#).

IV. Financial Inclusion and Development

General Credit Card (GCC) Facility

The Reserve Bank on April 25, 2023 revised the instructions on General Credit Card (GCC) as follows:

- i) The GCC Scheme shall henceforth be called 'General Credit Card (GCC) Facility'.
- ii) The instructions shall apply to all banks which are eligible to issue credit cards under the above Master Direction.
- iii) Individuals/entities sanctioned working capital facilities for non-farm entrepreneurial activities which are eligible for classification under the priority sector guidelines, may be issued General Credit Cards.
- iv) GCC shall be issued in the form of a credit card conforming to the stipulations in the above Master Direction as updated from time to time.
- v) The terms and conditions of the credit facilities extended in the form of GCC shall be as per the Board approved policies of the banks, within the overall framework laid down by Reserve Bank. Guidelines on collateral free lending for micro and small units issued from time to time shall apply.
- vi) Bank shall adhere to the instructions on reporting GCC data as issued by RBI from time to time.

These instructions supersede the GCC guidelines issued in December 2013 and come into effect from April 25, 2023. Debit cards, if any, already issued under the circular of 2013 shall remain valid till their expiry/repayment of the existing credit facilities, whichever is earlier. To read more, please click [here](#).

V. Publication

Monetary Policy Report

The Reserve Bank on April 6, 2023 published Monetary Policy Report (MPR) for the half year ended April 2023. The Bank under Section 45ZM of Reserve Bank of India Act, 1934 publishes the MPR once in every six months. The report is divided into 5 chapters, namely:

- i) Macroeconomic Outlook,
- ii) Prices and Costs,
- iii) Demand and Output,
- iv) Financial Markets and Liquidity Conditions and
- v) External Environment

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

RBI - Working Papers

The Reserve Bank in the month of April 2023 released the following 3 working papers:

i) **'Impact of Foreign Direct Investment on Profitability: Evidence from the Indian Corporate Sector'** by Haridwar Yadav, Vishal Shinde and Samir Kumar Das published on April 11, 2023. The paper empirically assesses the impact of foreign direct investment (FDI) on the capital structure and profitability of Indian companies. Using a multivariate GMM panel regression model and a novel panel data set constructed by taking data from RBI releases on FDI companies along with data on company financials from the Prowess database from 2013-14 to 2018-19, the paper finds that an increase in the share of FDI in equity raises profitability of the FDI-receiving companies.

ii) **'Reading Consumers' Minds: An Analysis of Inflation Expectations'** by Purnima Shaw published on April 18, 2023. The heterogeneity in the consumption baskets of households is often deemed responsible for the deviation of households' inflation expectations from the headline inflation number. A novel approach is proposed in this paper to verify this by simulating heterogeneous population consumption baskets and estimating the mean inflation by sampling the baskets.

iii) **'Did COVID-19 Affect Households Differently? Understanding Heterogeneity in Consumer Confidence'** by Sourajyoti Sardar, Anirban Sanyal and Tushar B. Das on April 24, 2023. Applying latent class analysis to unit-level data from the Consumer Confidence Survey, this paper brings out the heterogeneous impact of the first and the second wave of the COVID-19 pandemic on Indian households in terms of five parameters, namely their current perceptions and assessment of future outlook about economic conditions, employment, price level, income and spending.

To read more, please click [here](#).

Appointment

The Reserve Bank on April 3, 2023 appointed Shri Neeraj Nigam as Executive Director (ED). As ED, Shri Nigam will look after:

- i) Consumer Education and Protection Department,
- ii) Financial Inclusion and Development Department,
- iii) Legal Department and
- iv) Secretary's Department.

RBI Bulletin- April 2023

The Reserve Bank on April 21, 2023 released the April 2023 issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement April 6, 2023, Monetary Policy Report April 2023, one speech, five articles and current statistics. The five articles published are:

- i) State of the Economy: Global economic conditions are beset by heightened uncertainty as financial conditions remain volatile and financial markets are on edge. In India, aggregate demand conditions remain resilient, supported by a rebound in contact-intensive services. Expectations of a bumper rabi harvest, the fiscal thrust on infrastructure and the revival in corporate investment in select sectors augur well for the economy.
- ii) Recent Regime Reversal in Inflation: The Indian Experience by Michael Debabrata Patra, Joice John and Asish Thomas George. This article examines recent regime shifts in inflation in India.
- iii) Capital Outlay of Indian States: An Empirical Assessment of its Role and Determinants by Deba Prasad Rath, Bichitrana Seth, Samir Ranjan Behera and Anoop K Suresh. This article investigates the relationship between States' capital outlay and gross state domestic product (GSDP) while also identifying the factors that influence the States' capital outlay decisions.
- iv) Industrial Relations Code and Labour Productivity: A Cross-Country Meta-Analysis by Shruti Joshi and Rakhe P. Balachandran. Using a meta-regression analysis, this article evaluates the impact of fixed term employment (FTE) on labour productivity across countries.
- v) A Composite Indicator of Realty Sector Activity in India by Dipak R. Chaudhari, Akanksha Handa, Priyanka Upreti and Saurabh Ghosh. The article aims to reduce the information gap by constructing a realty sector activity indicator using a variety of high-frequency indicators and a dynamic factor model. To read more, please click [here](#).

VI. Data Release

Important data released by the Reserve Bank during the month of April 2023 are as follows:

S/N	Title
1.	Bank Lending Survey for Q4:2022-23
2.	Survey of Professional Forecasters on Macroeconomic Indicators
3.	Households' Inflation Expectations Survey
4.	Consumer Confidence Survey
5.	Overseas Direct Investment for March 2023
6.	RBI – Liabilities and Assets
7.	Sale/Purchase of U.S. Dollar by the RBI
8.	List of Government of India Securities outstanding as on April 24, 2023
9.	Balance of Payment (2023-2024)