

MONETARY & CREDIT INFORMATION REVIEW



MCIR

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I. Monetary Policy

Second Monetary Policy for 2020-21

The Monetary Policy Committee (MPC) of the Reserve Bank of India at its meeting held on August 6, 2020, on the basis of an assessment of the current and evolving macroeconomic situation decided to:

i) Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Consequently, 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.

ii) The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and 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.

Policy Highlights:

Liquidity Management and Financial Markets

i) Provision of Additional Standing Liquidity Facility (ASLF) to National Housing Bank (NHB) of ₹5,000 crore over and above ₹10,000 crore already provided for supporting housing finance companies;

ii) Provision of ASLF of ₹5,000 crore to NABARD for a period of one year at the policy repo rate for refinancing NBFC-MFIs and other smaller NBFCs of asset size of ₹500 crore;

iii) Introduction of an optional facility to provide banks more flexibility/discretion to manage their day end cash reserve ratio (CRR) balances.

Regulation and Supervision

Measures aimed at Mitigating the Economic Fallout of COVID-19:

i) Constitution of an expert committee under the chairmanship of Shri K.V. Kamath which shall make recommendations to the Reserve Bank on the required financial parameters to be factored into each of the resolution plans under the Resolution Framework for COVID-19;

ii) Provision of a window under the Prudential Framework to enable lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership;

iii) Permitting lending institutions to restructure the debt under the existing framework for MSME borrowers facing stress on account of the economic fall out of the pandemic, provided the borrower's account was classified as standard with the lender as on March 1, 2020;

iv) Increase the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent;

iv) Putting in place appropriate safeguards for opening of current accounts and cash credit/over draft accounts for customers availing credit facilities from multiple banks;

v) Continuation of the application of the general market risk charge of 9 per cent for computation of total capital charge for market risk on investment by banks in debt mutual funds and debt exchange traded funds.

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Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of August 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

Financial Inclusion

Review of the priority sector lending guidelines with a view to align the guidelines with emerging national priorities and bring sharper focus on inclusive development.

Payment and Settlement Systems

- i) A pilot scheme to be conducted for small value payments in off-line mode with built-in features for safeguarding interest of users and protecting their liability;
- ii) Introduction of an online dispute resolution system in a phased manner for resolving disputes and grievances arising from digital transactions;
- iii) Introduction of a mechanism of 'Positive Pay' for all cheques of value ₹50,000 and above to augment customer safety in cheque payments and reduce instances of fraud;
- iv) Creation of the Reserve Bank Innovation Hub to promote innovation across the financial sector by leveraging on technology and creating an environment which would facilitate and foster innovation. The Innovation Hub will support, promote and hand-hold cross-thinking spanning regulatory remits and national boundaries. To read more, please click [here](#).

II. Regulation

Resolution Framework for COVID-19

The Reserve Bank on August 06, 2020 decided to provide a window under the 'Prudential Framework for Resolution of Stressed Assets' to lenders with the objective to facilitate the revival of real sector activities. The window enables lenders to implement a resolution plan for eligible corporate exposures without change in ownership and personal loans, while classifying such exposures as standard. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of COVID-19. To read more, please click [here](#).

Opening of Current Accounts

The Reserve Bank on August 06, 2020 revised the instructions on opening of current accounts by banks as under:

- i) No bank shall open current accounts for customers who have availed credit facilities in the form of cash credit (CC)/overdraft (OD) from the banking system and all transactions shall be routed through the CC/OD account.
- ii) Where a bank's exposure to a borrower is less than 10 per cent of the exposure of the banking system to that borrower, while credits are freely permitted, debits to the CC/OD account can only be for credit to the CC/OD account of that borrower with a bank that has 10 per cent or more of the

- exposure of the banking system to that borrower;
- iii) Where a bank has a share of 10 per cent or more in the total exposure of the banking system to the borrower, it can provide CC/OD facility as hitherto;
- iv) In case of borrowers covered under guidelines on loan system for delivery of bank credit, bifurcation of working capital facility into loan component and cash credit component shall henceforth be maintained at individual bank level. To read more, please click [here](#).

Basel III Capital Regulations

The Reserve Bank on August 06, 2020 decided that the banks investing in debt mutual funds/exchange traded funds (ETF) with underlying comprising of central, state and foreign central government bonds; bank bonds and corporate bonds shall compute capital charge for market risk as under:

- i) Investment in debt mutual fund/ETF for which full constituent debt details are available shall attract general market risk charge of 9 per cent;
- ii) In case of debt mutual fund/ETF which contains a mix of the above debt instruments, the specific risk capital charge shall be computed based on the lowest rated debt instrument/instruments attracting the highest specific risk capital charge in the fund;
- iii) Debt mutual fund/ETF for which constituent debt details are not available, at least as of each month-end, shall continue to be treated on par with equity for computation of capital charge for market risk. To read more, please click [here](#).

Restructuring of Advances to MSMEs

The Reserve Bank on August 6, 2020 extended the scheme of permitting the restructuring of advances granted without an asset classification downgrade to MSMEs classified as 'standard' as on March 1, 2020 subject to the following conditions:

- i) The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020;
- ii) The borrower's account was a 'standard asset' as on March 1, 2020;
- iii) The restructuring of the borrower account is implemented by March 31, 2021;
- iv) The borrowing entity is GST-registered as on the date of implementation of the restructuring.
- v) The accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan;
- vi) For accounts restructured under these guidelines, banks shall maintain additional provision of 5 per cent over and above the provision already held by them. To read more, please click [here](#).

COVID-19 Resolution Framework

The Reserve Bank on August 06, 2020 constituted an expert committee to make recommendations on the required financial parameters to be factored into the resolution plans made under the 'Resolution Framework for COVID-19 related Stress.' The expert committee under the chairmanship of Shri K.V. Kamath will recommend sector specific benchmark ranges for such financial parameters and also undertake the process validation for the resolution plans to be implemented under the framework. Other members of the committee include Shri Diwakar Gupta, Shri T.N. Manoharan, Shri Ashvin Parekh, Strategy Advisor and CEO, Indian Banks' Association, as the Member Secretary. To read more, please click [here](#).

Loans Against Gold Ornaments

The Reserve Bank on August 06, 2020 increased the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent. This enhanced LTV ratio will be applicable up to March 31, 2021 to enable the borrowers to tide over their temporary liquidity mismatches on account of COVID-19. To read more, please click [here](#).

System Based Asset Classification

The Reserve Bank on August 12, 2020 implemented a system-based asset classification in urban co-operative banks (UCBs) in order to improve their efficiency, transparency and integrity of the asset classification process. The relevant instructions in this regard are as under:

- i) UCBs having total assets of ₹2000 crore or above as on March 31, 2020 shall implement system-based asset classification with effect from June 30, 2021;
- ii) UCBs having total assets of ₹1000 crore or above but less than ₹2000 crore as on March 31, 2020 and having self-assessed themselves as being under Level III or Level IV on Comprehensive Cyber Security Framework for UCBs, shall implement system-based asset classification with effect from September 30, 2021;
- iii) UCBs which meet the criteria as at the end of the current or subsequent financial years shall implement system-based asset classification within a period of six months from the end of the financial year concerned;
- iv) For smooth implementation of the system, all concerned UCBs may conduct pilot/parallel run and evaluate the results for accuracy/integrity;
- v) UCBs not meeting the criteria are also encouraged to voluntarily implement the system-based asset classification in their own interest. To read more, please click [here](#).

Review of Guidelines for CICs

The Reserve Bank on August 13, 2020 revised the guidelines applicable to core investment companies (CICs) based on the recommendations of the Working Group to Review the Regulatory and Supervisory Framework for CICs, constituted under the chairmanship of Shri Tapan Ray, former Secretary, Ministry of Corporate Affairs, Government of India and inputs received from stakeholders. To read the revised guidelines, please click [here](#).

Submission of Returns under BR Act

The Reserve Bank on August 26, 2020 extended the time period for submission of returns under Section 31 of the Banking Regulation Act, 1949 for the financial year ended on March 31, 2020 for a further period of three months. Accordingly, all UCBs shall ensure submission of returns to the Reserve Bank on or before September 30, 2020. To read more, please click [here](#).

III. Payment and Settlement Systems

Offline Retail Payments

The Reserve Bank on August 06, 2020 permitted a pilot scheme to be conducted for a limited period wherein authorised Payment System Operators (PSOs) – banks and non-banks – will be able to provide offline payment solutions using cards, wallets or mobile devices for remote or proximity payments. Other entities having innovative solutions using cards, wallets or mobile devices for remote or proximity payments shall tie-up with the authorised PSOs. The pilot scheme shall be undertaken till March 31, 2021. The Reserve Bank shall decide on formalising such a system on the basis of experience gained under the pilot. To read more, please click [here](#).

Online Dispute Resolution System

The Reserve Bank on August 06, 2020 advised authorised PSOs – banks and non-banks and their participants to put in place system/s for Online Dispute Resolution (ODR) for resolving disputes and grievances of customers. Authorised PSOs shall be required to implement an ODR system for disputes and grievances related to failed transactions in their respective payment systems by January 1, 2021. The PSOs shall allow Payment System Participants to access such a system. Any entity setting up a payment system in India thereafter or participating therein, shall make available the ODR system at the commencement of its operations. To read more, please click [here](#).

Umbrella Entity for Retail Payments

The Reserve Bank on August 18, 2020 placed on its website, the 'Framework for Authorisation of Pan-India Umbrella Entity for Retail Payments'. The framework has been released after due deliberations on the comments/feedback received by the Reserve Bank. The Reserve Bank also invites applications for the umbrella entity which may be submitted in the prescribed form till close of business on February 26, 2021. To read more, please click [here](#).

SRO for Payment System Operators

The Reserve Bank on August 18, 2020 placed on its website the draft framework for public comments for grant of recognition to an industry association as a Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs). The SRO shall cover operators in all segments of payment systems and will be expected to observe the best practices on security, customer protection and competitiveness. The SRO shall serve as a two-way communication channel between the PSOs and the Reserve Bank and will work towards establishing minimum benchmarks and standards in the payments space. To read more, please click [here](#).

IV. Financial Markets

Automated Sweep-In/Sweep-Out Facility

The Reserve Bank on August 06, 2020 decided to provide an optional automated sweep-in and sweep-out (ASISO) facility in its e-Kuber system. Banks will be able to set the amount (specific or range) that they wish to keep as balances in their current accounts with the Reserve Bank at the end of the day. Depending upon this pre-set amount, marginal standing facility (MSF) and reverse repo bids, as the case may be, will be generated automatically without any manual intervention at the end of the day. This facility is optional and is in addition to the existing mechanism of placing manual bids in the reverse repo and MSF windows through the e-Kuber portal. To read more, please click [here](#).

Annual Report 2019-20

The Reserve Bank on August 25, 2020 released its Annual Report, a statutory report of its Central Board of Directors for 2019-20. The report can be accessed by clicking [here](#) as well as by scanning the QR code.



V. RBI Top Management Speaks

Unlock 2.0 with Business Standard

Shri Shaktikanta Das, Governor delivered a keynote address on the topic 'It is Time for Banks to Look Deeply Within: Reorienting banking post COVID through video conference at the Unlock BFSI 2.0 with Business Standard on August 27, 2020. In his opening remarks, the Governor said that the COVID-19' pandemic still continues to keep the world on the edge and has infected more than 2.3 crore people and claimed more than eight lakh lives. He added that the uncertainty over the length and intensity of the pandemic and its impact on the economy continue to cause concern. The Reserve Bank has stepped forward and has so far announced various liquidity, monetary, regulatory and supervisory measures in the form of interest rate cuts, higher structural and durable liquidity, moratorium on debt servicing, asset classification standstill and recently a special resolution window within the 'Prudential Framework for Resolution of Stressed Assets'.

Speaking about the health of the banking sector in the country, the Governor said that just like boosting immunity of the population is the key to tackle pandemics, the key to long term financial stability would be to foster tangible improvement in the inherent ability of banks to withstand the exogenous shocks like the current pandemic. He also said that the core of resilient banks is made up of good governance, effective risk management and robust internal controls. He remarked that the business landscape of banks underwent significant change and advised banks to look out for sunrise sectors while supporting those which have the potential to bounce back. The Governor also spoke on various other issues like the need for reconfiguration of reforms, consolidation of public sector banks, new technology and ways to improve the health of banks, among others. To read more, please click [here](#).

VI. Data Releases

Important Data Releases from the Reserve Bank for the month of August 2020:

| | Title |
|---|--|
| 1 | Scheduled Banks' Statement of Position |
| 2 | Sectoral Deployment of Bank Credit |
| 3 | Performance of Private Corporate Business Sector |
| 4 | Data on India's International Trade in Services |