

MONETARY & CREDIT INFORMATION REVIEW

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I. Regulation

Unity Small Finance Bank Limited

The Reserve Bank on July 8, 2022 advised that “Unity Small Finance Bank Limited” has been included in the Second Schedule to the Reserve Bank of India Act, 1934 vide Notification DoR.LIC.No.S543/16.13.216/2022-23 dated April 28, 2022 and published in the Gazette of India (Part III - Section 4) dated July 2-July 08, 2022.

Exemption from Maintenance of CRR/SLR

At present, banks are required to include all foreign currency non-resident (Bank) [FCNR(B)] and non-resident (External) Rupee (NRE) deposit liabilities for computation of net demand and time liabilities (NDTL) for maintenance of CRR and SLR. The Reserve Bank on July 6, 2022 advised that with effect from the reporting fortnight beginning July 30, 2022, incremental FCNR (B) deposits as also NRE term deposits with reference to base date of July 1, 2022, mobilised by banks will be exempt from maintenance of CRR and SLR. To read more, please click [here](#).

Climate Risk and Sustainable Finance

In pursuance of the announcement made in the statement on developmental and regulatory policies dated April 8, 2022, the Reserve Bank on July 27, 2022 released a discussion paper on climate risk and sustainable finance. Comments on the discussion paper are invited from regulated entities and other stakeholders by September 30, 2022.

The Reserve Bank also released the results of a Survey on Climate Risk and Sustainable Finance undertaken in January 2022. The survey, covering covered 12 public sector banks, 16 private sector banks and 6 foreign banks in India, was carried out to assess the approach, level of preparedness and progress made by leading scheduled commercial banks in managing climate risk. To read more, please click [here](#).

Regulatory Framework for Urban Co-operative Banks

The expert committee on urban co-operative banks (UCBs); which was constituted to examine the issues in urban co-operative banking sector, provided a medium-term road map, suggest measures for faster resolution of UCBs and recommend suitable regulatory/supervisory changes for strengthening the sector; recommended a four-tiered regulatory framework based on the size of deposits of the UCBs and their area of operations. The Reserve Bank on July 19, 2022 furnished a list of major recommendations which have been accepted fully, partially with suitable modifications and those under further examination. To read more, please click [here](#).

Cancellation of Certificate of Registration – NBFCs

The Reserve Bank on July 12, 2022 cancelled four certificates of registration (CoR) of non-banking financial companies (NBFCs) in the exercise of powers conferred on it under Section 45-IA (6) of the Reserve Bank of India Act, 1934. To read more, please click [here](#).

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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 July 2022 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

Further, the Reserve Bank on July 12, 2022 furnished a list of three NBFCs who surrendered their CoR granted to them by the Reserve Bank. The Reserve Bank under Section 45-IA (6) of the Reserve Bank of India Act, 1934, has cancelled CoR of these NBFCs. To read more, please click [here](#).

Regulatory Sandbox

In the Second Cohort under the Regulatory Sandbox (RS) with 'Cross-Border Payments' as its theme, four entities have completed the 'Test Phase'. The products were evaluated based on mutually agreed test scenarios and expected outcomes. The products found acceptable under this Cohort may be considered for adoption by Regulated Entities subject to compliance with applicable regulatory requirements. To read more, please click [here](#).

II. Payment and Settlement Systems

Regulation of Payment Aggregators

The Reserve Bank had issued guidelines on regulation of payment aggregators and payment gateways for seeking authorisation for payment aggregators (PAs) under the Payment and Settlement Systems Act, 2007 (PSS Act). Keeping in view the disruption caused by the COVID-19 pandemic, and to ensure smooth functioning of the payments ecosystem, the Reserve Bank on July 28, 2022 decided to allow all PAs, existing as on March 17, 2020, to apply to the Reserve Bank by September 30, 2022 and shall have a net worth of ₹15 crore as on March 31, 2022. They shall be permitted to continue their operations till they receive communication from the Reserve Bank. The timeline of March 31, 2023 for achieving the net worth of ₹25 crore, remains. To read more, please click [here](#).

Expanding Cooperation in Payment Systems

The Reserve Bank of India (RBI) and the Bank Indonesia (BI) signed a Memorandum of Understanding (MoU) on July 16, 2022 in Bali, Indonesia, on the sidelines of the G20 Finance Ministers and Central Bank Governors Meeting to improve mutual cooperation between the two central banks.

This MoU will deepen relations between both central banks and strengthen the exchange of information and cooperation in the area of central banking, including payment systems, digital innovation in payments services, and regulatory and supervisory framework for Anti Money Laundering and Combating the Financing of Terrorism. To read more, please click [here](#).

III. Foreign Exchange Management

Investment by Foreign Portfolio Investors

The Reserve Bank on July 7, 2022 issued directions under section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999, for AD Category-I banks, regarding relaxations in short-term investments by

FPI in government securities and corporate bonds. The Directions issued shall be applicable with immediate effect. To read more, please click [here](#).

Short Term Line of Credit to Sri Lanka

Export-Import Bank of India (Exim Bank) entered into an agreement dated June 10, 2022 with the Government of the Democratic Socialist Republic of Sri Lanka, for making available to the latter, the Government of India supported short-term line of credit (STLoC) of USD 55 million for the financing of procurement of urea fertilizer from India. The Reserve Bank on July 7, 2022 issued directions, under section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999, for AD Category-I banks to advise their exporter constituents to obtain complete details of the STLoC from the Exim Bank. To read more, please click [here](#).

Asian Clearing Union-Indo-Sri Lanka Trade

The Reserve Bank on July 8, 2022 issued directions stating that all eligible current account transactions including trade transactions with Sri Lanka may be settled in any permitted currency outside the ACU mechanism until further notice. To read more, please click [here](#).

International Trade Settlement in Indian Rupees

The Reserve Bank on July 8, 2022 issued directions to put in place arrangements for invoicing, payment, and settlement of exports/imports in Indian Rupees and issued a broad framework for cross-border trade transactions in INR under the Foreign Exchange Management Act, 1999. The instructions shall come into force with immediate effect. To read more, please click [here](#).

Liberalisation of Forex Flows

The Reserve Bank has been closely and continuously monitoring the liquidity conditions in the forex market and has stepped in as needed in all its segments to alleviate dollar tightness with the objective of ensuring orderly market functioning. In order to further diversify and expand the sources of forex funding so as to mitigate volatility and dampen global spillovers, the Reserve Bank on July 6, 2022 issued revised measures to enhance forex inflows while ensuring overall macroeconomic and financial stability. To read more, please click [here](#).

Survey on International Trade in Banking Services

The Reserve Bank on July 4, 2022 launched the 2021-22 round of its survey on international trade in banking services (ITBS). The survey schedule for the 2021-22 round is required to be filled in by the banks for branches/subsidiaries/joint ventures of Indian banks operating abroad and branches/subsidiaries of foreign banks operating in India. To read more, please click [here](#).

Overseas Foreign Currency Borrowings

The Reserve Bank on July 7, 2022 issued directions for AD Category-I banks, advising them to utilise funds raised from overseas foreign currency borrowings between July 8, 2022 and October 31, 2022 (both dates included) for lending in foreign currency to constituents in India. Such lending shall be subject to the end-use prescriptions as applicable to external commercial borrowings. To read more, please click [here](#).

IV. Financial Markets

Investment by Non-residents

The Reserve Bank introduced the fully accessible route (FAR) in pursuance of the announcement made in the Union Budget 2020-21 that certain specified categories of Central Government securities would be opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well. In addition the Reserve Bank on July 7, 2022 issued directions, under Section 45W of Chapter IIID of the Reserve Bank of India Act, 1934, to designate two securities and all new issuances of government securities of 7-year and 14-year tenors as 'specified securities' under the FAR. The directions shall be applicable with immediate effect. To read more, please click [here](#).

Statement of Commitment to FX Global Code

The Reserve Bank on July 20, 2022 signed its renewed statement of commitment (SoC) to the FX Global Code. The Code is a compilation of best market practices, formulated by central banks and market participants, developed under the auspices of Bank for International Settlements (BIS), Basel. The Code is applicable to the Wholesale FX market participants covering sell-side, buy-side and financial intermediaries, and is voluntary in nature. To read more, please click [here](#).

V. RBI Publications

RBI Working Papers

The Reserve Bank published two publications under its working paper series in the month of July 2022.

i) The first working paper titled, 'Towards Atma Nirbhar Bharat: An Exploration of Linkages and Leakages' is authored by Saurabh Sharma, Ipsita Padhi and Deba Prasad Rath. This paper uses input-output analysis to identify the major sectors of the economy based on the sectoral multipliers. The paper identifies the sectors for export promotion and the sectors where domestic capabilities need to be developed for supply chain resilience. To read the full working paper, please click [here](#).

ii) The second working paper titled 'Banks' Credit and Investment Dynamics: Assessing Portfolio Rebalancing and Crowding-out' is authored by Sanjay Singh,

Garima Wahni and Muneesh Kapur. The paper analyses the asset portfolio dynamics of Indian banks with respect to loan growth and investment in government securities. The analysis indicates that weak economic conditions and stressed asset quality encourage banks to increase their investments in government securities suggesting the presence of a portfolio rebalancing channel. To read the full working paper, please click [here](#).

VI. Financial Inclusion and Development

Assignment of Lead Bank Responsibility

Consequent upon the formation of 13 new districts in Andhra Pradesh, notified vide Gazette Notifications No.472-497 dated April 3, 2022 by the Government of Andhra Pradesh, the Reserve Bank on July 7, 2022 decided to designate lead banks of the new districts along with the district working codes allotted for the purpose of BSR reporting by banks. To read more, please click [here](#).

Master Circular-Deendayal Antyodaya Yojana

The Reserve Bank on July 20, 2022 issued a master circular on Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), consolidating and updating all the instructions/ guidelines on the subject issued till date and replacing the earlier Master Circular issued on the subject. To read more, please click [here](#).

VII. Currency Management

Note Sorting Machines

In the backdrop of the introduction of the new series of banknotes, the parameters of note authentication and fitness sorting for the note sorting machines have been reviewed. The Reserve Bank on July 1, 2022 issued a revised set of guidelines for sorting parameters for implementation with immediate effect. To read more, please click [here](#).

VIII. Monetary Policy

Meeting of Monetary Policy Committee-Rescheduling

The Reserve Bank on July 21, 2022, under Section 45ZI(4) of the Reserve Bank of India Act, 1934, announced that the next meeting of the Monetary Policy Committee (MPC) for the financial year 2022-23 has been rescheduled from August 2-4, 2022 to August 3-5, 2022.

IX. Banker to Government

Conference of State Finance Secretaries

The 32nd conference of the State Finance Secretaries (SFS) was held in Mumbai on July 7, 2022. The conference was attended by the officials from the Ministry of Finance, Government of India, Controller General of Accounts, Comptroller and Auditor General of India and the Finance Secretaries of 24 States and

one Union Territory. The conference was inaugurated by the Governor, the Reserve Bank of India. To read more, please click [here](#).

X. RBI Bulletin

RBI Bulletin – July 2022

The Reserve Bank on July 16, 2022 released the July 2022 issue of its monthly Bulletin. The Bulletin includes eight speeches, six articles and current statistics.

The six articles are:

I. State of the Economy

In a global landscape marred by fears of recession and war, the Indian economy shows resilience. The recent revival of the monsoon, the pick-up in manufacturing and services, stabilisation of inflation pressures and strong buffers in the form of adequate international reserves, sufficient foodgrain stocks and a well-capitalised financial system together brighten the outlook and strengthen the conditions for a sustainable high growth trajectory in the medium-term.

II. Monetary Policy: Confronting Supply-driven Inflation

This article shows that monetary policy response is conditioned by a) the nature of the shock; b) aggregate demand conditions; c) monetary policy credibility; d) the reaction of other agents in the economy to the shock.

Highlights:

- When a supply shock is transitory, inflation returns to equilibrium without the need for any monetary policy action and that it can look through its initial impact as it lies outside its realm and remit.
- When the economy is going through a contractionary phase, an adverse supply shock can worsen the monetary policy trade-off, as it can ill afford to weaken demand conditions further by responding to the inflationary impact of the supply shock.
- Under an adverse supply shock, by frontloading monetary policy actions, credibility is demonstrated by showing commitment to the inflation target.

III. Remote Sensing Applications for Policy: An Assessment of Agricultural Commodity Arrivals

Timely and reliable indicators of crop production are key to assessing inflationary trends in the near future.

Highlights:

- Inter-dynamics of vegetation indicators suggest the strong influence of vegetation, which strengthens with the progress of crop season.
- Geospatial modelling indicates the presence of spatial heterogeneity in parameter estimates of vegetation growth across mandis.
- Availability of granular spatio-temporal remote sensing data at high-frequency provides an extra edge over traditional datasets.

IV. Fed Taper and Indian Financial Markets: This Time is Different

Taper of large scale asset purchase programmes has

the potential to significantly impact the financial market variables in emerging market economies. This article compares the impact of the Fed's two taper announcements (May 22, 2013 and November 3, 2021) on Indian financial markets.

Highlights:

- The event study results indicate that the 2021 Taper (Taper 2) announcement was less severe as compared to Taper Tantrum of 2013 (Taper 1).
- Empirical analysis suggests a muted impact of Taper 2 announcement on financial market volatilities.

V. Headwinds of COVID-19 and India's Inward Remittances

India's inward remittances have proven to be a resilient source of current account receipts during the COVID-19 pandemic. This article identifies the factors determining the resilience of remittance inflows across countries.

Highlights:

- Cross-country remittances inflows are found to be driven by altruism motive, captured by the infection rate in the destination country and the stringency of the lockdown in the source countries.
- The fifth remittances survey 2020-21 finds that the share of Gulf countries in total remittances has declined.
- The proportion of small-sized transactions increased.
- The public sector banks have lost market share.

VI. Electronification of FX Markets in India

This article documents the recent changes in FX markets in India.

Highlights:

- Electronification of global FX trading, has been characterised by the emergence of new forms of trading venues.
- These developments have altered the market structure with growing market fragmentation.
- In recent years, single-bank platforms are becoming increasingly visible in the Indian FX market. To read more, please click [here](#).

XI. Data Releases

Important data releases by the Reserve Bank during July 2022 are as follows:

Sr No	Title
1.	International Trade in Services: May 2022
2.	ECB/FCCB/RDB: May 2022
3.	Overseas Direct Investment: June 2022
4.	Lending and Deposit Rates of SCBs: July 2022
5.	Sectoral Deployment of Bank Credit – June 2022
6.	Digital Payments Index for March 2022