Monetary Policy Highlights: February 2021 -part 2

February 8, 2021
In news : Recently, RBI released the Monetary Policy review for February 2021

Key highlights(Part-2)

Liquidity Guidance

- The Reserve Bank and the markets evolved a shared understanding towards cooperative solutions during the pandemic period. A large government borrowing programme was managed seamlessly.
- The issuance of corporate bonds reached a record level (Rs.5.8 lakh crore during April-December 2020 as compared with Rs. 4.6 lakh crore during April-December 2019).
- Explicit forward guidance was an innovative feature in the conduct of monetary policy during 2020-21.
- In addressing the discomfort of markets regarding persistently higher inflation prints and the large supply of government paper, the maintenance of financial stability and the orderly evolution of the yield curve were explicitly regarded as public goods as the benefits accrue to all stakeholders in the economy.
- The RBI's market operations dispelled illiquidity fears and bolstered financial market sentiment.
- Convinced by the RBI's communication and actions, market participants also responded synchronously and cooperatively, which bears testimony to the effectiveness of the forward guidance.
- In the G-sec market in which risk-free benchmarks evolve, a record low weighted average cost of 5.78 per cent and an elongated weighted average maturity of 14.9

years testify to the credibility of monetary and liquidity management operations of RBI.
- According to RBI, reserve money rose by 14.5 per cent y-o-y (on January 29, 2021), led by currency demand. Money supply (M3), on the other hand, grew by only 12.5 per cent as on January 15, 2021.

A two phase normalisation of the cash reserve ratio (CRR)

As per RBI, Systemic liquidity would, however, continue to remain comfortable over the ensuing year. In fact, the CRR normalisation opens up space for a variety of market operations to inject additional liquidity. The underlying theme of our endeavour in these areas would be to flexibly use all instruments in our arsenal appropriately without jeopardising financial stability, which is at the core of RBI's policy objectives.

Additional Measures during Covid-19 pandemic

The RBI will persevere with its paramount objective of reviving the economy with measures relating to (i) enhancing liquidity support to targeted sectors and liquidity management; (ii) regulation and supervision; (iii) deepening financial markets; (iv) upgrading payment and settlement systems; and (v) strengthening consumer protection

(i)Liquidity Measures

TLTRO on Tap Scheme – Inclusion of NBFC:

- With a view to support revival of activity in specific stressed sectors that have both backward and forward linkages and have multiplier effects on growth, the RBI had announced the TLTRO on Tap Scheme for banks on October 9, 2020.
- Given that NBFCs are well recognised conduits in reaching out to the last mile in various sectors, **it is now proposed to provide funds from banks under the TLTRO**

on Tap scheme to NBFCs for incremental lending to the specified stressed sectors.

Restoration of CRR in two phases beginning March 2021:

- To tide over the disruption caused by COVID-19, the Cash Reserve Ratio (CRR) of all banks was reduced by 100 basis points to 3.0 per cent for a period of one year ending on March 26, 2021.
- On a review of monetary and liquidity conditions, it has been decided to gradually restore the CRR in two phases in a non-disruptive manner to 3.5 per cent effective from March 27, 2021 and 4.0 per cent effective from May 22, 2021.
- As mentioned earlier, the CRR normalisation opens up space for a variety of market operations of the RBI to inject additional liquidity.

Marginal Standing Facility (MSF) – Extension of Relaxation:

- On March 27, 2020 banks were allowed to avail of funds under the marginal standing facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of net demand and time liabilities (NDTL), i.e., cumulatively up to 3 per cent of NDTL.
- This facility, which was extended in phases up to March 31, 2021, will now be available for a further period of another six months, i.e. up to September 30, 2021 to provide comfort to banks on their liquidity requirements.
- This dispensation provides increased access to funds to the extent of Rs.1.53 lakh crore.

(ii) Regulation and Supervision

SLR Holdings in Held to Maturity (HTM) category:

- On September 1, 2020, **the Reserve Bank increased the**

limits under Held to Maturity (HTM) category from 19.5 per cent to 22 per cent of net demand and time liabilities (NDTL) in respect of statutory liquidity ratio (SLR) eligible securities acquired on or after September 1, 2020, up to March 31, 2021. This dispensation was made available up to March 31, 2022.

- In order to provide certainty to the market participants in the context of the borrowing programme of the centre and states for 2021-22, it has now been decided to extend the dispensation of enhanced HTM of 22 per cent up to March 31, 2023 to include securities acquired between April 1, 2021 and March 31, 2022.
- The HTM limits would be restored from 22 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2023.
- It is expected that banks will be able to plan their investments in SLR securities in an optimal manner with a clear glide path for restoration of HTM limits.

Credit to MSME Entrepreneurs:

- RBI said that, in order to incentivise new credit flow to the micro, small, and medium enterprise (MSME) borrowers, Scheduled Commercial Banks will be allowed to deduct credit disbursed to 'New MSME borrowers' from their net demand and time liabilities (NDTL) for calculation of CRR.
- For the purpose of this exemption, **'New MSME borrowers'** would be those who have not availed any credit facilities from the banking system as on January 1, 2021.
- This exemption will be available for exposures up to Rs.25 lakh per borrower for credit extended up to the fortnight ending October 1, 2021.

Capital Conservation Buffer and Net Stable Funding Ratio:

- The emphasis of regulatory interventions by the Reserve

Bank has veered towards supporting and nurturing the recovery.

- While some of the regulatory measures taken in the immediate aftermath of the pandemic are being gradually phased out, it is necessary to enable banks to continue providing the necessary support to the process of recovery.
- It has, therefore, been decided to **defer the implementation of the last tranche of the Capital Conservation Buffer (CCB) of 0.625 per cent and also defer the implementation of Net Stable Funding Ratio (NSFR)** by another six months from April 1 to October 1, 2021.

Review of the Regulatory Framework for Microfinance:

- The Reserve Bank will come out with **a consultative document harmonising the regulatory frameworks applicable to various regulated lenders (NBFC-Micro Finance Institutions,** Scheduled Commercial Banks, Small Finance Banks and NBFC–Investment and Credit Companies) in the microfinance space.

Expert Committee on Primary (Urban) Co-operative Banks:

- **The recent amendments to the Banking Regulation Act, 1949 have brought near parity in regulatory and supervisory powers between Primary (Urban) Co-operative Banks and commercial banks, including those related to governance,** audit and resolution.
- An **Expert Committee (EC) will be constituted to provide a medium-term road map for strengthening the sector** leveraging on the legislative amendments.

Remittances to IFSCs under the Liberalised Remittance Scheme:

- Currently, resident individuals are not allowed to make remittances under the Liberalised Remittance Scheme (LRS) to International Financial Service Centres

(IFSCs).

- To further develop IFSCs and bring them at par with other international financial centres, **it is proposed to permit resident individuals to make remittances to IFSCs for investment in securities** issued by non-resident entities in IFSCs.
- For this specific purpose, **resident individuals would be allowed to open a non-interest bearing Foreign Currency Account (FCA) in IFSCs.**

(iii) Deepening Financial Markets

Allowing Retail Investors to Open Gilt Accounts with RBI:

- It is proposed to provide retail investors with online access to the government securities market – both primary and secondary – directly through the **Reserve Bank ('Retail Direct').**
- This will broaden the investor base and provide retail investors with enhanced access to participate in the government securities market. This is a major structural reform placing India among select few countries which have similar facilities.
- This measure together with HTM relaxation, will facilitate smooth completion of the Government borrowing programme in 2021-22.

Foreign Portfolio Investors (FPIs) Investment in Defaulted Bonds:

- In order to further promote investment by foreign portfolio investors (FPI) in corporate bonds, FPI investment in defaulted corporate bonds will be exempted from the short-term limit and the minimum residual maturity requirement under the Medium-Term Framework.

(iv) Payment and Settlement Systems

Setting up of 24×7 Helpline for Digital Payment Services:

- With enhanced penetration and efficiency of digital payments, major payment system operators would be required to facilitate setting-up of a centralised industry-wide 24×7 helpline for addressing customer queries in respect of various digital payment products and give information on available grievance redress mechanisms.
- Going forward, the facility of redress of customer grievances through the helpline shall be considered. This is envisaged to enhance consumer trust and confidence in the digital payments ecosystem.

Guidelines on Outsourcing for Operators and Participants of Authorised Payment Systems:

- To manage the attendant risks in outsourcing and ensure that a code of conduct is adhered to while outsourcing payment and settlement related services, **the Reserve Bank shall issue guidelines on outsourcing of such services by these entities.**

Cheque Truncation System (CTS) Clearing across all Bank Branches:

- **The coverage of the Cheque Truncation System (CTS) has been extended to all legacy clearing houses by September 2020**. It is, however, noticed that about 18,000 bank branches are still outside any formal clearing arrangement.
- **It is now proposed to bring all these branches under CTS clearing by September 2021.** With this measure, all bank branches in the country would be covered under the CTS.

(v) Consumer Protection

Integrated Ombudsman Scheme:

- At present, the framework for alternate dispute resolution consists of three separate Ombudsman schemes for banks, NBFCs and non-bank prepaid payment issuers (PPIs). These three schemes are operated by the RBI from twenty-two Ombudsman offices located across the country.

- **To make the Ombudsman mechanism simpler, efficient and more responsive, it has been decided to integrate the three Ombudsman schemes** and introduce centralised processing of grievances following a **'One Nation One Ombudsman' approach**.
- This is intended to make the process of redress of grievances easier by enabling the customers to register their complaints under the integrated scheme, with one centralised reference point.
- The Integrated Ombudsman Scheme will be rolled out in June 2021.