

RBI hikes Repo Rate by another 50 basis points

August 6, 2022

In news– Reserve Bank of India(RBI) has hiked the repo rate by one half of a percent recently.

Key updates-

- The **repo rate, the rate at which RBI lends money to commercial banks**, has been hiked by one half of a percent.
- Considering the prevailing adverse global environment, resilience in domestic economic activity, uncomfortably high inflation level, the **RBI has hiked the policy repo rate by 50 basis points, to 5.40%**.
- The Monetary Policy Committee of the RBI came to this judgement since it felt the need to keep inflation and inflationary expectations under check.
- The **central bank's growth projection for the Indian economy remains unchanged, at 7.2% for the current financial year**, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 percent; and Q4 at 4.0 percent.
- **Real GDP growth** for Q1:2023-24 is projected at **6.7 per cent**.

Five additional Measures announced-

The Governor announced a series of five additional measures, as given below:

Encouraging Standalone Primary Dealers to further Develop Financial Markets-

- Standalone Primary Dealers (**SPDs**) will now be able to offer all foreign exchange market-making facilities as currently permitted to Category-I Authorized Dealers,

subject to prudential guidelines.

- This will provide customers with a **wider set of market makers** to manage their foreign currency risk. This will also increase the breadth of the forex market in India.
- **SPDs will also be permitted to undertake transactions in the offshore Rupee Overnight Indexed Swap market** with non-residents and other market makers.
- This measure will supplement a similar measure announced in February 2022 for the banks.
- These measures are expected to remove the segmentation between onshore and offshore OIS markets and improve price discovery.
- The measures are being taken, considering the role of SPDs in developing financial markets.

Managing Risks and Code of Conduct in Outsourcing of Financial Services-

- There has been an increasing trend of outsourcing of financial services by regulated entities. Considering this, the **RBI is going to issue a draft Master Direction on Managing Risks and Code of Conduct** in Outsourcing of Financial Services for public comments.
- This is being done to strengthen the risk management framework and harmonize and consolidate the existing guidelines.

Bharat Bill Payment System to be open to NRIs as well-

- The Bharat Bill Payment System (BBPS), **an interoperable platform for standardized bill payments**, will now be able to **accept cross-border inward bill payments**.
- This will thereby **enable NRIs as well to use the system to pay their bills for utility**, education and other such services, on behalf of their families in India. This will thus greatly **benefit senior citizens**.

Credit Information Companies to be brought under Reserve Bank Integrated Ombudsman Scheme (RB-IOS) 2021-

- To make the RB-IOS more broad-based, Credit Information Companies (CICs) are being brought under the RB-IOS framework.
- With this, RBI gets a **cost-free alternative mechanism for redressal of grievances against Credit Information Companies.**
- Further, these companies will now need to have their own **internal Ombudsman (IO) framework.**

MIBOR Benchmark Committee to be set up-

- The RBI has decided to set up a **committee to undertake an in-depth examination of the issues relating to development and use of interest rate derivatives,** including the need for transitioning to an alternative benchmark for Mumbai Interbank Outright Rate, and suggest the way forward.