

RBI Monetary Policy Statement

June 2022

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We appreciate the Monetary Policy Committee Members of the Reserve Bank of India (RBI) under the Chairmanship of Shri Shaktikanta Das, Hon'ble Governor, Reserve Bank of India, for an announcement on MPC on 08th June 2022 and based on an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 4.90 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.15 per cent. The MPC also decided to remain focused on the withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting growth. These decisions are in consonance to achieve the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent while supporting growth.

We are pleased to share that today's announcements included some of the key recommendations made by the ASSOCHAM.

 **Change of stance from accommodative to neutral.**

 **Enhance the mandate limit for recurring payments to enhance customer convenience.**

 **Raise the policy repo rate to manage the rising inflationary pressures.**



Assessment **Global Economy**

- Since the MPC's meeting in May 2022, the global economy continues to grapple with multi-decadal high inflation and slowing growth, persisting geopolitical tensions and sanctions, elevated prices of crude oil and other commodities and lingering COVID-19 related supply chain bottlenecks. Global financial markets have been roiled by turbulence amidst growing stagflation concerns, leading to a tightening of global financial conditions and risks to the growth outlook and financial stability.

Domestic Economy

- According to the provisional estimates released by the National Statistical Office (NSO) on May 31, 2022, India's real gross domestic product (GDP) growth in 2021-22 was 8.7 per cent. This works out to 1.5 per cent above the pre-pandemic level (2019-20).
- Available information for April-May 2022 indicates a broadening of the recovery in economic activity. Urban demand is recovering, and rural demand is gradually improving.
- Overall system liquidity remains in ample surplus, with the average daily absorption under the LAF moderating to ₹5.5 lakh crore from May 4 - May 31 from ₹7.4 lakh crore during April 8 - May 3, 2022, in consonance with the policy of gradual withdrawal of accommodation. Money supply (M3) and bank credit from commercial banks rose (y-o-y) by 8.8 per cent and 12.1 per cent, respectively, as of May 20, 2022. India's foreign exchange reserves were placed at US\$ 601.4 billion as of May 27, 2022.
- CPI headline inflation rose further from 7.0 per cent in March 2022 to 7.8 per cent in April 2022, reflecting a broad-based increase in all its major constituents. Food inflation pressures accentuated, led by cereals, milk, fruits, vegetables, spices and prepared meals. Fuel inflation was driven up by a rise in LPG and kerosene prices.

Merchandise exports posted robust double-digit growth for the fifteenth month in a row during May, while non-oil and non-gold imports continued to expand at a healthy pace, pointing to a recovery of domestic demand.

Core inflation (i.e., CPI excluding food and fuel) hardened across almost all components, dominated by the transport and communication sub-group.

Consequent to the recent reduction in excise duties, domestic retail prices of petroleum products have moderated. However, international crude oil prices remain elevated, with risks of further pass-through to domestic pump prices.

Rural consumption should benefit from the likely normal southwest monsoon and the expected improvement in agricultural prospects.

Investment activity is expected to be supported by improving capacity utilisation, the government's CAPEX push, and strengthening bank credit.

Outlook

- The tense global geopolitical situation and the consequently elevated commodity prices impart considerable uncertainty to the domestic inflation outlook. The restrictions on wheat exports should improve the domestic supplies, but the shortfall in the rabi production due to the heat wave could be an offsetting risk. A normal southwest monsoon forecast augurs well for the Kharif agricultural production and the food price outlook. Edible oil prices remain under pressure on adverse global supply conditions, despite some recent corrections due to a major supplier's lifting the export ban. Consequent to the recent reduction in excise duties, domestic retail prices of petroleum products have moderated. However, international crude oil prices remain elevated, with risks of further pass-through to domestic pump prices. There are also upside risks from revisions in the prices of electricity.
- Early results from manufacturing, services and infrastructure sector firms polled in the Reserve Bank's surveys expect further input and output price pressures going forward. Taking into account these factors, and on the assumption of a normal monsoon in 2022 and an average crude oil price (Indian basket) of US\$ 105 per barrel, inflation is now projected at 6.7 per cent in 2022-23, with Q1 at 7.5 per cent; Q2 at 7.4 per cent; Q3 at 6.2 per cent; and Q4 at 5.8 per cent, with risks evenly balanced.
- The recovery in domestic economic activity is gathering strength. Rural consumption should benefit from the likely normal southwest monsoon and the expected improvement in agricultural prospects. A rebound in contact-intensive services is likely to bolster urban consumption going forward.
- Investment activity is expected to be supported by improving capacity utilisation, the government's CAPEX push, and strengthening bank credit. The growth of merchandise and services exports is set to sustain the recent buoyancy. Spillovers from prolonged geopolitical tensions, elevated commodity prices, continued supply bottlenecks and tightening global financial conditions nevertheless weigh on the outlook. Thus, the real GDP growth projection for 2022-23 is retained at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent; and Q4 at 4.0 per cent, with risks broadly balanced.

»»» Regulation and Supervision

The RBI has increased the existing limits on individual housing loans by cooperative banks. The increased limits will apply for both Primary (Urban) Co-operative Banks (UCBs), and Rural Cooperative Banks (RCBs).

The increased limits for individual housing loans being extended by urban cooperative banks (UCBs) and rural cooperative banks (RCBs), by over 100 per cent, will facilitate a better flow of credit to the housing sector.

Doorstep banking services by UCBs will make banking services more accessible to senior citizens and disabled individuals.

Individual Housing Loans by Cooperative Banks

- Enhancement in Limits Extant guidelines prescribe prudential limits on the amount of individual housing loans that can be extended by Primary (Urban) Co-operative Banks (UCBs), and Rural Cooperative Banks (RCBs - State Cooperative Banks and District Central Cooperative Banks) to their customers. These limits were last revised for UCBs in 2011 and for RCBs in 2009. Considering the increase in housing prices since the limits were last revised and considering the customer needs, it has been decided to increase the existing limits on individual housing loans by cooperative banks. Accordingly, the limits for Tier I /Tier II UCBs shall stand revised from ₹30 lakh/ ₹70 lakh to ₹60 lakh/ ₹140 lakh, respectively. As regards RCBs, the limits shall increase from ₹20 lakh to ₹50 lakh for RCBs with an assessed net worth less than ₹100 crores; and from ₹30 lakh to ₹75 lakh for other RCBs. A detailed circular will be issued separately.

Permitting Rural Co-operative Banks (RCBs) to Lend to Commercial Real Estate

- As per the extant guidelines, State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) are prohibited from extending loans to the commercial real estate sector. Given the growing need for affordable housing and to realise their potential in providing credit facilities to the housing sector, it has been decided to allow StCBs and DCCBs to extend finance to Commercial Real Estate – Residential Housing (CRE-RH) within the existing aggregate housing finance limit of 5 per cent of their total assets. A detailed circular will be issued separately.

Permitting Urban Cooperative Banks (UCBs) to Offer Door-step Banking

- To attain harmonization of the regulatory framework across REs and to provide the convenience of banking services to the customers at their doorstep, it has been decided to permit UCBs to extend doorstep banking services to their customers on par with scheduled commercial banks. A detailed circular will be issued separately.



Financial markets

Margin Requirements for Non-centrally Cleared Derivatives (NCCDs)

- Well-established variation and initial margining requirements for over the counter (OTC) NCCD transactions contribute to financial stability and are a vital component of the post-crisis G20 recommendations for these markets.
- To strengthen the resilience of the OTC derivative market, the Reserve Bank had earlier issued a discussion paper to implement global practices related to margin requirements for OTC derivatives.
- The promulgation of the Act for Bilateral Netting of Qualified Financial Contracts, 2020, ensuring legal recognition for bilateral netting of an OTC derivative transaction, has been a significant enabler for efficient margining. Against this backdrop, Directions on the exchange of Variation Margin (VM) for NCCDs were issued on June 1, 2022. Draft Directions on the exchange of Initial Margin (IM) for NCCDs are being issued for public feedback separately.



Payment And Settlement Systems

E-Mandates On Cards For Recurring Payments- Enhancement Of Limit

- The framework for processing e-mandate based recurring payments, inter-alia, provides for an Additional Factor of Authentication (AFA) during registration, sending a pre-debit notification, subsequent recurring transactions to be executed without AFA, and a more accessible avenue to withdraw such mandates. Benefits of convenience, safety and security are available to the users. The system also benefits from users' confidence.
- Leading banks provide the facility, and the transaction volumes are seeing good traction. To date, over 6.25 crore mandates have been registered under this framework, including for over 3,400 international merchants.
- Stakeholders have received requests to increase the limit under the framework to facilitate payments of more considerable value like subscriptions, insurance premia, education fees, etc. To further augment customer convenience and leverage the benefits available under the framework, it is proposed to enhance the limit from ₹5,000 to ₹15,000 per recurring payment. Necessary instructions will be issued shortly.

The guidelines issued to market participants regarding exchange of variation margin (VM) for NCCDs will improve safety of settlement of over-the-counter (OTC) derivatives that are not centrally cleared.

Enhancing the the mandates on recurring payments via cards, both credit and debit from Rs 5,000 to Rs 15,000 per transaction will augment customer convenience.

To further deepen the reach and usage, it is proposed to allow the linking of credit cards to UPI.

It has been recommended that changes be made to the PIDF Scheme, including increasing the subsidy amount and streamlining the subsidy claim process.

Enhancements to Unified Payments Interface (UPI)- Linking of RuPay Credit Cards

- UPI has become India's most inclusive mode of payment. Currently, over 26 crore unique users and five crore merchants are onboarded on the UPI platform. In May 2022 alone, 594.63 crore transactions amounting to ₹10.40 lakh crore were processed through UPI. UPI currently facilitates transactions by linking Savings/ Current Accounts through users' Debit Cards.
- The interoperability of PPIs has also facilitated access of PPIs to the UPI payment system for undertaking transactions. To further deepen the reach and usage, it is proposed to allow the linking of credit cards to UPI. To start with, Rupay credit cards will be enabled with this facility. This arrangement is expected to provide more avenues and convenience to the customers in making payments through the UPI platform. This facility will be available after the required system development is complete. Necessary instructions will be issued to NPCI separately.

Review Of Payments Infrastructure Development Fund Scheme

- The Reserve Bank operationalised the Payments Infrastructure Development Fund (PIDF) Scheme in January 2021 to incentivise the deployment of payment acceptance infrastructure such as physical Point of Sale (PoS), mPoS (mobile PoS), Quick Response (QR) codes in Tier-3 to 6 centres and the North Eastern States. The Scheme had targeted 90 lakh Points of Sale (PoS) terminals and Quick Response (QR) codes to be deployed over three years (till end-2023). Beneficiaries of the PM SVANidhi Scheme in Tier-1 and two centres were included in August 2021. As of end-April 2022, over 1.18 crore new touch points have been deployed under the Scheme.
- It is now proposed to make modifications to the PIDF Scheme by inter-alia, enhancing the subsidy amount, simplifying the subsidy claim process, etc. This is expected to accelerate further and augment the deployment of payment acceptance infrastructure in the targeted geographies. The amendments will be notified shortly.