प्रेस प्रकाशनी PRESS RELEASE

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Statement on Developmental and Regulatory Policies – February 2018

Relief for MSME Borrowers who have registered under Goods and Services Tax

1. The formalisation of business through registration under Goods and Services Tax (GST) adversely impacted cash flows of the smaller entities during the transition phase with consequent difficulties in meeting their repayment obligations to banks and non-banking financial companies (NBFCs). As a measure to support their transition to a formalised business environment, it has been decided that for the GST-registered Micro, Small and Medium Enterprises (MSMEs) which were standard as on August 31, 2017 and for which the aggregate exposure of banks and NBFCs does not exceed ₹ 250 million as on January 31, 2018, the amounts overdue as on September 1, 2017 and payments due between September 1, 2017 and January 31, 2018, be allowed by banks and NBFCs to be paid not later than 180 days from their original due date, without a downgrade in asset classification. Detailed instructions have been issued today.

Removal of Credit Caps on MSME (Services) under Priority Sector

2. In the light of feedback received from various stakeholders and in line with the increasing importance of services sector in our economy, it has been decided to remove the currently applicable loan limits of ₹ 50 million and ₹ 100 million per borrower to Micro, Small and Medium Enterprises (Services) respectively, for classification under priority sector. Accordingly, all bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall qualify under priority sector without any credit caps.

Applicability of sub-targets of Small & Marginal Farmers and Micro Enterprises for foreign banks with 20 branches and above

3. In order to achieve level-playing field in the priority sector lending guidelines for banks, it was stipulated in April, 2015 that post 2018 (i.e., after three years from the issuance of guidelines), the sub-targets for lending to small and marginal farmers and micro enterprises shall be made applicable for foreign banks with 20 branches and above. It has been decided that the sub-target of 8 percent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, will be made applicable for lending to the small and marginal farmers for foreign banks with 20 branches and above from FY 2018-19. Further, the sub-target for bank lending to the Micro Enterprises in the country of 7.50 percent of ANBC or CEOBE, whichever is higher, will also be made applicable for foreign banks with 20 branches and above from FY 2018-19.

Harmonizing Benchmark Rate Methodology

4. Reserve Bank introduced the Marginal Cost of Funds based Lending Rates (MCLR) system with effect from April 1, 2016 on account of the limitations of the Base Rate regime. With the introduction of the MCLR system, it was expected that the existing Base Rate linked credit exposures shall also migrate to MCLR system. It is observed, however, that a large proportion of bank loans continue to be linked to the Base Rate despite the Reserve Bank highlighting this concern in earlier monetary policy statements. Since MCLR is more sensitive to policy rate signals, it has been decided to harmonize the methodology of determining benchmark rates by linking the Base Rate to the MCLR with effect from April 1, 2018. Necessary instructions will be issued by the end of next week.

Comprehensive Repo Directions

5. Currently, the Reserve Bank's repo directions are issued separately for Government Securities and corporate debt. These directions specify, *inter-alia*, entities eligible to undertake repos and minimum credit rating of corporate bonds that may be used as collateral. With a view to harmonizing regulations across different types of collateral and also to encourage wider participation, especially for corporate debt repos, the repo directions are proposed to be streamlined and simplified. The revised directions will be issued by the end of this month.

Ease of access to non-residents for forex hedging onshore

6. Access to non-residents for hedging their INR currency risk arising out of their current and capital account transactions is limited by the type of risks that are permitted to be hedged and

the instruments that can be used. With a view to ease the access of such non-residents to the onshore market for their hedging requirements, including for Masala bond exposures, it is now proposed to allow them to dynamically hedge their currency and interest rate exposures onshore using any of the permitted instruments. The circular to permit the above will be released after the necessary changes in FEMA regulations have been notified by the Government of India.

Revision of limits for exchange traded currency derivatives (ETCD)

7. Currently, users can take positions in exchange traded currency derivatives, without having to establish proof of underlying exposure, upto USD 15 million per exchange for USD-INR and USD 5 million per exchange for other currency pairs involving the Rupee. This limit was last reviewed in March, 2015. RBI has subsequently permitted introduction of currency option contracts involving the INR on exchanges. In order to encourage further participation in exchange traded currency derivatives, it is now proposed to merge these position limits across all foreign currency-INR pairs and provide a single limit of USD 100 million per user (both resident and non-resident) across all exchange traded currency derivatives, in all exchanges combined. The circular to this effect will be released by the end of this month.

Taking over of G-Sec benchmark and forex reference rate by FBIL

8. Financial Benchmarks India Pvt. Ltd (FBIL) was incorporated in 2014 as per the recommendations of the Committee on Financial Benchmarks. FBIL has so far taken over existing benchmarks such as Mumbai Inter-Bank Outright Rate (MIBOR) and option volatility, and introduced new benchmarks such as Market Repo Overnight Rate (MROR), Certificate of Deposits (CDs) and T-Bills yield curves. The development of FBIL as an independent organisation for administration of all financial market benchmarks including valuation benchmarks is important for the credibility of these benchmarks and integrity of financial markets. Accordingly, it is proposed that (i) FBIL would assume the responsibility for standardising the valuation of Government securities (issued by both the Centre and States) currently being done by FIMMDA; and, (ii) FBIL would also assume the responsibility for computation and dissemination of the daily “Reference Rate” for Spot USD/INR and other major currencies against the Rupee, which is currently being done by the Reserve Bank. The effective dates for implementation of these two functions will be indicated by FBIL and the Reserve Bank.

Ombudsman Scheme for customers of Non-Banking Finance Companies

9. With a view to providing customers of Non-Banking Finance Companies (NBFCs) with a cost-free and expeditious grievance redress mechanism, it has been decided to introduce an Ombudsman Scheme for NBFCs. The scheme will cover all deposit taking NBFCs and those with customer interface having asset-size of Rupees One Billion and above. To begin with, the Scheme will be operationalised by the end of this month for all deposit taking NBFCs.

Review of the Currency Management System

10. As announced in the fourth Bi-Monthly Monetary Policy Statement on October 4, 2016, the Reserve Bank had constituted two high level inter-agency committees to review the entire gamut of currency management, including security of movement of treasure. Reserve Bank, in consultation with the Government, had also arranged an audit by an external group, of four currency presses, two of which are run by the Reserve Bank subsidiary and two by a unit of Government, so as to standardise the note printing processes, procurement of raw materials, quality assurance processes, security, etc. A Task Force is being formed to implement the recommendations of the above committees within nine months.

Review of Currency Distribution and Exchange Scheme (CDES)

11. To encourage technology absorption in currency operations of banks and enable them to offer improved customer services, incentives for installation of various machines have been provided by the Reserve Bank from time to time. It is observed that the purpose has largely been achieved. With a view to promote a less cash economy, the incentive schemes have been reviewed and it has been decided to discontinue going forward the incentives for installation of Cash Recycler Machines (CRMs) and Automated Teller Machines (ATMs).

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