Statement on Developmental and Regulatory Policies, Reserve Bank of India

1. Measures to Improve Monetary Policy Transmission

The experience with the Marginal Cost of Funds Based Lending Rate (MCLR) system introduced in April 2016 for improving the monetary transmission has not been entirely satisfactory, even though it has been an advance over the Base Rate system. An internal Study Group has been constituted by the Reserve Bank of India (RBI) to study the various aspects of the MCLR system from the perspective of improving the monetary transmission and exploring linking of the bank lending rates directly to market determined benchmarks. The Group will submit the report by September 24, 2017.

Further, a quick scrutiny of the Base Rate of some banks post the introduction of MCLR suggests that it has moved significantly less than MCLR. While the extent of change in Base Rate may not necessarily mirror the revision in MCLR, the rigidity of Base Rate is a matter of concern for an efficient transmission of monetary policy to the real economy. Given a large part of the floating rate loan portfolio of banks is still anchored on the Base Rate, the RBI will be exploring various options in the near future to make the Base Rate more responsive to changes in cost of funds of banks.

2. Amendment to LCR Guidelines

As per the extant guidelines on Liquidity Coverage Ratio (LCR), cash including cash reserves in excess of the required minimum CRR are recognised as Level 1 High Quality Liquid Asset (HQLA). However the excess reserves held with other central banks are not recognized as Level 1 HQLA.
On a review of the instructions, it has been decided that reserves held by banks incorporated in India with a foreign central bank, in excess of the reserve requirement in the host country, should be treated as HQLAs, subject to certain conditions.

A circular is being issued today.

3. High Level Task Force on Public Credit Registry for India

To address the information asymmetry between borrowers and lenders as well as to make the credit market more efficient, private Credit Bureaus and Public Credit Registry (PCR), generally operated by the central bank or a supervisory authority, work in tandem in most of the countries. In India, as of date, four credit bureaus or Credit Information Companies (viz. CIBIL, Equifax, Experian and CRIF Highmark) are running, which are regulated by RBI under Credit Information Companies (Regulation) Act, 2005 (CICRA 2005). Within RBI, Central Repository of Information on Large Credits (CRILC) has been created to cater to the supervisory needs by tracking large exposures. RBI also has a comprehensive Basic Statistical Return (BSR-1) database with granular account level information on credit.

A PCR can potentially help banks in credit assessment and pricing of credit as well as in making risk-based, dynamic and countercyclical provisioning. The PCR can also help the RBI in understanding if transmission of monetary policy is working, and if not, where are the bottlenecks. Further, it can help supervisors, regulators and banks in early intervention and effective restructuring of stressed bank credits.

In view of the above, it has been decided to constitute a High-level Task Force comprising experts as well as major stake-holders to (i) review the current availability of information on credit in India; (ii) assess the gaps that could be filled by a comprehensive PCR; (iii) study international practices; and, (iv) suggest a roadmap, including the priority areas, for developing a transparent, comprehensive and near-real-time PCR for India.
4. Issue of comprehensive Credit Information Reports (CIRs) by Credit Information Companies (CICs)

It has been observed that Credit Information Companies (CICs) are following the practice of offering limited versions of Credit Information Reports (CIRs) to Credit Institutions (CIs) based on credit information available in specific modules such as commercial data, consumer data or MFI data.

In order to facilitate efficient credit appraisals by Credit Institutions and reduce information asymmetries between lenders and borrowers, it has been decided to direct CICs to incorporate all the credit information available in all modules of the CIC database in the CIRs furnished to CIs.

A circular is being issued today.

5. RBI’s Surveys of Households

The RBI regularly conducts a number of surveys for monetary policy. A Technical Advisory Committee on Surveys (TACS) drawing members from reputed institutions in the field provides guidance to the RBI in conducting these surveys. While the Inflation Expectation Survey of Households (IESH) is conducted in 18 cities covering around 5,500 households, the Consumer Confidence Survey (CCS) is conducted in 6 cities covering around 5,400 households. In order to improve their representativeness, as per the recommendations of the TACS, efforts are being undertaken to expand the coverage of IESH to rural and semi-urban areas; and, in case of the CCS, the coverage will be increased from 6 cities to 13 cities.

6. Tri-party repo

Introduction of tri-party repos will likely contribute to better liquidity in the corporate bond repo market, thereby providing markets an alternate repo instrument to Government securities repo. The draft directions on introduction of tri-party repo were placed on RBI website on April 11, 2017 for public feedback. The feedback has been examined and the final circular on this will be issued around mid-August 2017.
7. Simplified hedging facility

The scheme of simplified hedging facility was first announced by the RBI in August 2016 and the draft scheme was released on April 12, 2017. The scheme aims to simplify the process for hedging exchange rate risk by reducing documentation requirements and avoiding prescriptive stipulations regarding products, purpose and hedging flexibility. It is also expected to encourage a more dynamic and efficient hedging culture. The circular to operationalize the scheme has been finalized and will be released after the issue of FEMA notification by the Government.

8. Separate limit of Interest Rate Futures (IRFs) for Foreign Portfolio Investors (FPIs)

Currently, the FPI limit for Government securities is fungible between investments in securities and investment in bond futures. To facilitate further market development and to ensure FPIs' access to futures remains uninterrupted during the phase when FPI limits on Government securities are under auction, it is proposed to allocate FPIs a separate limit of ₹ 5,000 crore for long position in IRFs. The limits prescribed for investment by FPIs in Government securities will then be exclusively available for acquiring such securities. FPI’s access to interest rate futures for hedging purposes will continue as before. The circular in this regard would be issued by the RBI after consultation with the Government.


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