Fact Sheet: Monetary Policy
June 2022

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FICCI

RBI withdraws accommodative stance, inflation management a priority

Key Rates	June 2022	Status
Repo Rate	4.90%	Increased by 50 bps
Standing Deposit Facility (SDF)	4.65%	Increased by 50 bps
Reverse Repo Rate	3.35%	Unchanged
Marginal Standing Facility (MSF)	5.15%	Increased by 50 bps
Bank Rate	5.15%	Increased by 50 bps

- Policy repo rate under the liquidity adjustment facility (LAF) increased by 50 basis points to 4.90 per cent
- Accordingly, the Standing deposit facility (SDF) rate also increased to 4.65 per cent
- Both Marginal Standing Facility (MSF) rate and the Bank Rate also stand adjusted by 50 basis points to 5.15 per cent
- The Monetary Policy Committee decided to remain focused on withdrawal of accommodation to ensure that Consumer Price Index (CPI) inflation remains within the target of 4 per cent within a band of +/- 2 per cent going forward, while supporting growth
- Owing to the Russia-Ukraine war and the accompanying sanctions, global commodity prices have been elevated for quite some time now. This is exerting sustained upward pressure on consumer price inflation, as well as hindering global trade and growth. Major advanced economies are normalizing their monetary policies, which is increasing volatility in global financial markets. While domestic economic activity is gaining traction, the upside risks to inflation as highlighted in RBI's April and May 2022 policies have materialized earlier than anticipated by the Central Bank. Inflationary pressures have broadened and are being driven largely by adverse supply shocks (mainly high input costs). The Monetary Policy Committee has acknowledged that continued high inflation may destabilize inflation expectations, and as a result, unanimously agreed that a further tightening of monetary policy is necessary

RBI's Quarterly GDP and CPI Projections

	Gross Domestic Product (in %)					Consumer Price Index (in %)				
	FY23	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	FY23	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
June 2022 Monetary Policy	7.2	16.2	6.2	4.1	4.0	6.7	7.5	7.4	6.2	5.8
April 2022 Monetary Policy	7.2	16.2	6.2	4.1	4.0	5.7	6.3	5.8	5.4	5.1
Change in outlook	Unchanged					Raised				

Source: Monetary Policy Statement, Resolution of the Monetary Policy Committee (MPC) June 6-8, 2022

RBI keeps GDP growth projection unchanged at 7.2% for 2022-23

Domestic economic activity is recovering and reaching pre-pandemic levels. The Central Bank expects rural consumption expenditure to pick-up owing to improved agricultural prospects from a normal monsoon. Going forward, recovery in contact-intensive services is projected to increase urban consumption expenditure. Improved capacity utilisation, the government's capex drive, and increased bank credit, are likely to bolster investment activity. Nonetheless, spillovers from protracted geopolitical tensions, high commodity prices, ongoing supply constraints, and tightening global financial conditions remain. Taking into account all these factors, RBI has retained the real GDP growth projection for 2022-23 at 7.2 per cent from its April announcement.

RBI revises CPI projection for 2022-23 to 6.7% from 5.7% in the last monetary policy announcement

The volatile geopolitical environment and high commodity prices, have added significant uncertainty to RBI's inflation forecast. The bank believes that the shortage in rabi yield owing to the heatwave may offset the positive impact of the wheat export ban on domestic supplies. Though retail prices of petroleum products have moderated as a result of the excise cut, international crude oil prices remain elevated. There is also the possibility of an increase in electricity price. Preliminary results from the Bank's surveys of enterprises in the manufacturing, services, and infrastructure sectors indicate greater input and output price pressures. Taking all these considerations into account, the Central Bank has revised its inflation forecast upwards to 6.7 percent in 2022-23 from its April announcement.

Developmental & Regulatory Announcements

Regulation and Supervision

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. Taking into account 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 assessed net worth less than ₹100 crore; and from ₹30 lakh to ₹75 lakh for other RCBs.

Permitting Rural Co-operative Banks (RCBs) to Lend to Commercial Real Estate - Residential Housing (CRE-RH) Sector
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. Considering 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.

Permitting Urban Cooperative Banks (UCBs) to Offer Door-step banking
In order to attain harmonization of regulatory framework across REs and to provide convenience of banking services to the customers at their door-step, it has been decided to permit UCBs to extend doorstep banking services to their customers on par with scheduled commercial banks.

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 key component of the post-crisis G20 recommendations for these markets. With the objective of strengthening the resilience of 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 put in place a significant enabler for efficient margining. Against this backdrop, Directions on exchange of Variation Margin (VM) for NCCDs were issued on June 1, 2022. Draft Directions on exchange of Initial Margin (IM) for NCCDs being issued for public feedback separately.

Source: Statement on Developmental & Regulatory Policies, Reserve Bank of India, June 8, 2022

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Payment and Settlement Systems

e-Mandates on Cards for Recurring Payments – Enhancement of Limit

The framework on processing of 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 an easier avenue to withdraw such mandates. Major banks are providing the facility and the transaction volumes are seeing good traction. Till date, over 6.25 crore mandates have been registered under this framework, including for over 3,400 international merchants. Requests have been received from stakeholders to increase the limit under the framework to facilitate payments of larger value like subscriptions, insurance premia, education fee, 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 to be issued shortly.

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

UPI has become the most inclusive mode of payment in India. Currently, over 26 crore unique users and 5 crore merchants are onboarded on the UPI platform. UPI currently facilitates transactions by linking Savings / Current Accounts through Debit Cards of users. The interoperability of PPIs has also facilitated access of PPIs to the UPI payment system for undertaking transactions. In order to further deepen the reach and usage, it is proposed to allow linking of credit cards to UPI. To start with Rupay credit cards will be enabled with this facility. This facility would be available after the required system development is complete. Necessary instructions to be issued to NPCI separately.

Review of Payments Infrastructure Development Fund Scheme

The Payments Infrastructure Development Fund (PIDF) Scheme was operationalised by the Reserve Bank 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 Northeastern 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 PM SVANidhi Scheme in Tier-1 and 2 centres were included in August 2021. As at 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 further accelerate and augment the deployment of payment acceptance infrastructure in the targeted geographies. The amendments to be notified shortly.

Source: Statement on Developmental & Regulatory Policies, Reserve Bank of India, June 8, 2022

FICCI's Comments

The policy is on expected lines. Managing inflation is clearly a priority for both the government and the central bank at this juncture. The supply shocks, first from the pandemic and then from the ongoing geo-political developments have escalated price pressures significantly. In case of India, a significant proportion of the increase in prices is coming from the food segment and from commodities. While the RBI is clearly targeting inflation, we are encouraged to note that the projection for GDP growth for the current year has been retained.

The excise duty cuts undertaken by the Central Government last month will have a salubrious effect on household inflationary expectations. Support from the States on the same lines through a further cut in VAT rates on petrol / diesel will be a welcome move and we hope to see these cuts being announced soon. Further, for supply side management of inflation, we believe that resolute action backed with hard data is required at multiple points and among multiple stakeholders. Our suggestion is to have a Food Inflation & Response Strategy Team (FIRST) to create an e-enabled, empowered coordination framework which can work with and across multiple key governmental agencies, to proactively address food inflation.

Both the RBI and government were steadfast in their approach to support the economy through the extremely challenging period of the pandemic. We are encouraged to note that the same resoluteness is on display to guide the economy and help it navigate through the current period of heightened uncertainty.

On the regulatory side, there were a series of announcements that would have a positive impact on the housing sector growth in the country as well as on further encouraging the use of digital payments. The increase in existing limits on individual housing loans by cooperative banks and permitting Rural Co-operative Banks (RCBs) to lend to Commercial Real Estate - Residential Housing (CRE-RH) Sector are welcome steps. These will give a further push to the real estate sector, and we look forward to the detailed circular to be issued by RBI.

On the digital payments, there were three major announcements that were made today. The linking of credit cards to the UPI will deepen the reach and usage of digital payments as well as offer greater convenience to consumers in making payments. The increase in the limits from Rs 5000 to Rs 15000 for recurring payments on e-mandates on cards will facilitate large value payments like subscriptions. Finally, a review of the Payments Infrastructure Development Fund Scheme with an expected increase in subsidy amount and simplification of the subsidy claim process etc. will help augment the deployment of acceptance infrastructure in targeted locations and geographies. Many of these measures have been discussed and proposed by the FICCI Fintech Committee and we are grateful to the RBI for having taken industry suggestions on board.