

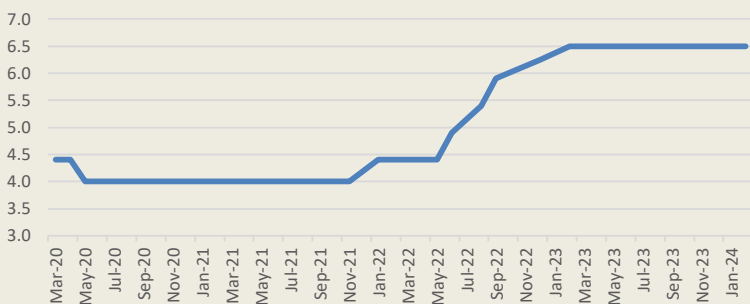
Fact Sheet: Monetary Policy

February 2024

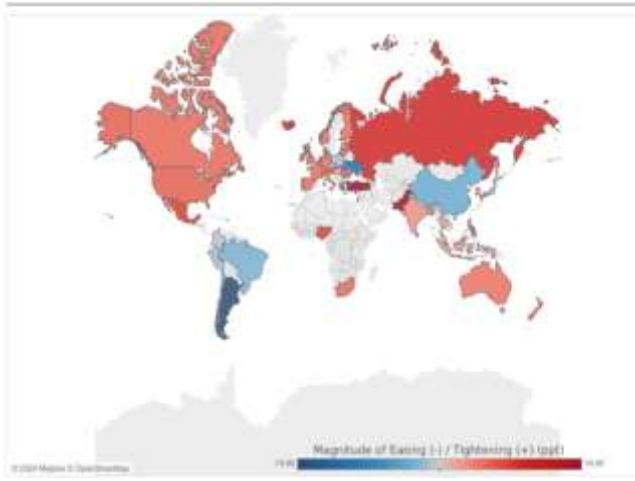
RBI keeps repo rate unchanged at 6.50%

- ❖ Policy repo rate under the liquidity adjustment facility (LAF) remains unchanged at 6.50 per cent
- ❖ Standing deposit facility (SDF) rate stands remains unchanged at 6.25 per cent
- ❖ Marginal Standing Facility (MSF) rate and the Bank Rate remains unchanged at 6.75 per cent

Repo rate



Global Monetary Policy Tracker, January 2024



Source: Council on Foreign Relations. The tracker covers fifty-four large countries—mainly those that target inflation in some manner. Tightening policy is indicated in red, loosening in blue. The more a country has raised (lowered) rates, in percentage points, from the most recent trough (peak) in its policy rate, the darker the shade of red (blue).

RBI's Guidance on Growth & Inflation

Policy Statement	Gross Domestic product (in %)					Consumer Price Index (in%)				
	2024-25	Q1	Q2	Q3	Q4	2024-25	Q1	Q2	Q3	Q4
December 2023	-	6.7	6.5	6.4	-	-	5.2	4.0	4.7	-
February 2024	7.0	7.2	6.8	7.0	6.9	4.5	5.0	4.0	4.6	4.7
Change from previous policy	-	↑	↑	↑	-	-	↓	↔	↓	-

GROWTH OUTLOOK

Upsides

- ✓ Recovery in rabi sowing
- ✓ Sustained profitability in manufacturing
- ✓ Resilience of services sector
- ✓ Improvement in household consumption
- ✓ Upturn in private capex cycle
- ✓ Healthy balance sheet of banks and corporates
- ✓ Govt's consistent thrust to capex
- ✓ Improving outlook for global trade
- ✓ Rising integration in global supply chain

Downsides

- ✓ Persistent geopolitical tension
- ✓ Volatile financial markets
- ✓ Geo-economic fragmentation

INFLATION OUTLOOK

Upsides

- ✓ Adverse weather events impacting food prices
- ✓ Expected higher input costs pressure and growth in selling prices in services and infrastructure firms
- ✓ Volatile crude oil prices

Downsides

- ✓ Seasonal correction in vegetables prices
- ✓ Muted core inflation
- ✓ High level of rabi crop sowing
- ✓ Expected softening in input costs and selling prices in manufacturing

Source: RBI's Monetary Policy Statement, February 08, 2024

Financial Markets

1. Review of the Regulatory Framework for Electronic Trading Platforms

In October 2018, the Reserve Bank had put in place a regulatory framework for electronic trading platforms (ETPs) for executing transactions in financial instruments regulated by it. Under the framework, which aimed to ensure fair access through transparent, safe, and efficient trading processes, robust trading infrastructures and prevent market abuse, thirteen ETPs operated by five operators have since been authorised. Over the last few years, there has been increased integration of the onshore forex market with offshore markets, notable developments in the technology landscape and an increase in product diversity. Market makers have also made requests to access offshore ETPs offering permitted Indian Rupee (INR) products. In view of these developments, it has been decided to review the regulatory framework for ETPs. The revised regulatory framework to be issued separately for public feedback.

2. Hedging of Gold Price Risk in the Over the Counter (OTC) Market in the International Financial Services Centre (IFSC)

With a view to providing flexibility to resident entities to hedge their exposures to gold price risk efficiently, resident entities were permitted, in December 2022, to access recognized exchanges in the International Financial Services Centre (IFSC). It has now been decided to also allow them to hedge the price of gold in the over the counter (OTC) segment in the IFSC. This will provide resident entities more flexibility and easier access to derivative products in hedging their exposure to gold prices. The related instructions will be issued separately.

Regulations

3. Key Fact Statement (KFS) for Retail and MSME Loans & Advances

The Reserve Bank has announced several measures in the recent past to foster greater transparency and disclosure by the regulated entities (REs) in pricing of loans and other charges levied on the customers. One such measure is the requirement for lenders to provide their borrowers a Key Fact Statement (KFS) containing the key information regarding a loan agreement, including all-in-cost of the loan, in simple and easy to understand format. Currently KFS is specifically mandated in respect of loans by scheduled commercial banks to individual borrowers; digital lending by REs; and microfinance loans. Now, it has been decided to mandate all REs to provide the 'Key Fact Statement' (KFS) to the borrowers for all retail and MSME loans. Providing critical information about the terms of the loan agreement, including all-inclusive interest cost, shall greatly benefit the borrowers in making an informed decision.

Payment Systems and Fintech

4. Enhancing the Robustness of AePS

Aadhaar Enabled Payment System (AePS), operated by NPCI, enables customers to perform digital payment transactions in assisted mode. In 2023, more than 37 crore users undertook AePS transactions, which points to the important role played by AePS in financial inclusion. To enhance the security of AePS transactions, it is proposed to streamline the onboarding process, including mandatory due diligence, for AePS touchpoint operators, to be followed by banks. Additional fraud risk management requirements will also be considered. Instructions in this regard shall be issued shortly.

5. Principle-based Framework for Authentication of Digital Payment Transactions

Over the years, the Reserve Bank has prioritized security of digital payments, in particular the requirement of Additional Factor of Authentication (AFA). Though RBI has not prescribed any particular AFA, the payments ecosystem has largely adopted SMS-based One Time Password (OTP). With innovations in technology, alternative authentication mechanisms have emerged in recent years. To facilitate the use of such mechanisms for digital security, it is proposed to adopt a principle-based "Framework for authentication of digital payment transactions". Instructions in this regard to be issued separately.

6. Introduction of Programmability and Offline Functionality in Central Bank Digital Currency (CBDC) Pilot

The CBDC Retail (CBDC-R) pilot currently enables Person to Person (P2P) and Person to Merchant (P2M) transactions using Digital Rupee wallets provided by pilot banks. It is now proposed to enable additional use cases using programmability and offline functionality. Programmability will permit users like, for instance, government agencies to ensure that payments are made for defined benefits. Similarly, corporates will be able to program specified expenditures like business travel for their employees. Additional features like validity period or geographical areas within which CBDC may be used can also be programmed. Second, it is proposed to introduce an offline functionality in CBDC-R for enabling transactions in areas with poor or limited internet connectivity. Multiple offline solutions (proximity and non-proximity based) across hilly areas, rural and urban locations will be tested for this purpose. These functionalities to be introduced through the pilots in a gradual manner.

Source: RBI Statement on Developmental and Regulatory Policies, February 8, 2024

FICCI's Comments

The status quo on the policy rate is on expected lines. The concern on inflation continues to remain and is a key anchor driving RBI's stance with RBI looking at attaining 4.0 percent retail inflation on a durable basis. The growth projection being maintained at 7.0 percent is reassuring especially amidst continuing inflationary pressures. Also, the government's commitment to the fiscal consolidation path is encouraging. This should bode well in creating space for monetary policy action. We look forward to both the Government and RBI continuing to work in tandem.

Also, the RBI's endeavor towards ensuring security and robustness of the digital payment systems is positive. We look forward to the details on the streamlining of the onboarding process of Aadhaar enabled payment system and on the proposal of principal based 'framework for authentication of digital payment transactions'.