10th February 2022

RBI Monetary Policy Statement, 2021-22
Resolution of the Monetary Policy Committee (MPC)

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on 10th February, 2022 decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Please find attached herewith the following:

- **Monetary Policy Statement, 2021-22.PDF**
- **Statement on Development and Regulatory Policies.PDF**
- **RBI MPC Announcement- February.pdf**

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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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February 10, 2022

Monetary Policy Statement, 2021-22
Resolution of the Monetary Policy Committee (MPC)
February 8-10, 2022

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (February 10, 2022) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

2. Since the MPC's meeting in December 2021, the rapid spread of the highly transmissible Omicron variant and the associated restrictions have dampened global economic activity. The global composite purchasing managers' index (PMI) slipped to an 18 month low of 51.4 in January 2022, with weakness in both services and manufacturing. World merchandise trade continues to grow. There are, however, headwinds emanating from persistent container and labour shortages, and elevated freight rates. In its January 2022 update of the World Economic Outlook, the International Monetary Fund (IMF) revised global output and trade growth projections for 2022 downward to 4.4 per cent and 6.0 per cent from its earlier forecasts of 4.9 per cent and 6.7 per cent, respectively.

3. After reversing the transient correction that had occurred towards end-November, commodity prices resumed hardening and accentuated inflationary pressures. With several central banks focused on policy normalisation, including ending asset purchases and earlier than expected hikes in policy rates, financial

markets have turned volatile. Sovereign bond yields firmed up across maturities and equity markets entered correction territory. Currency markets in emerging market economies (EMEs) have exhibited two-way movements in recent weeks, driven by strong capital outflows from equities with elevated uncertainty on the pace and quantum of US rate hikes. The latter also led to an increasing and volatile movement in US bond yields.

Domestic Economy

4. The first advance estimates (FAE) of national income released by the National Statistical Office (NSO) on January 7, 2022 placed India's real gross domestic product (GDP) growth at 9.2 per cent for 2021-22, surpassing its pre-pandemic (2019-20) level. All major components of GDP exceeded their 2019-20 levels, barring private consumption. In its January 31 release, the NSO revised real GDP growth for 2020-21 to (-) 6.6 per cent from the provisional estimates of (-) 7.3 per cent.

5. Available high frequency indicators suggest some weakening of demand in January 2022 reflecting the drag on contact-intensive services from the fast spread of the Omicron variant in the country. Rural demand indicators – two-wheeler and tractor sales – contracted in December-January. Area sown under *Rabi* up to February 4, 2022 was higher by 1.5 per cent over the previous year. Amongst the urban demand indicators, consumer durables and passenger vehicle sales contracted in November-December on account of supply constraints while domestic air traffic weakened in January under the impact of Omicron. Investment activity displayed a mixed picture – while import of capital goods increased in December, production of capital goods declined on a year-on-year (y-o-y) basis in November. Merchandise exports remained buoyant for the eleventh successive month in January 2022; non-oil non-gold imports also continued to expand on the back of domestic demand.

6. The manufacturing PMI stayed in expansion zone in January at 54.0, though it moderated from 55.5 in the preceding month. Among services sector indicators, railway freight traffic, e-way bills, and toll collections posted y-o-y growth in December-January; petroleum consumption registered muted growth and port traffic declined. While finished steel consumption contracted y-o-y in January, cement production grew in double digits in December. PMI services continued to exhibit expansion at 51.5 in January 2022, though the pace weakened from 55.5 in December.

7. Headline CPI inflation edged up to 5.6 per cent y-o-y in December from 4.9 per cent in November due to large adverse base effects. The food group registered a significant decline in prices in December, primarily on account of vegetables, meat and fish, edible oils and fruits, but sharp adverse base effects from vegetables prices resulted in a rise in y-o-y inflation. Fuel inflation eased in December but remained in double digits. Core inflation or CPI inflation excluding food and fuel stayed elevated, though there was some moderation from 6.2 per cent in November to 6.0 per cent in December, driven by transportation and communication, health, housing and recreation and amusement.

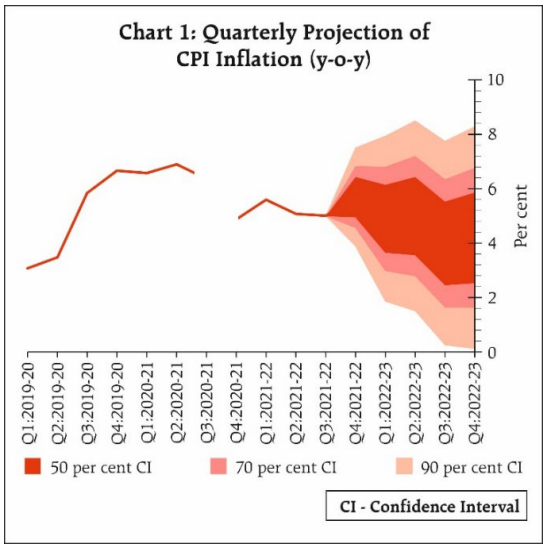
8. Overall system liquidity continued to be in large surplus, although average absorption (through both the fixed and variable rate reverse repos) under the LAF declined from ₹8.6 lakh crore during October-November 2021 to ₹7.6 lakh crore in January 2022. Reserve money (adjusted for the first-round impact of the change in the cash reserve ratio) expanded by 8.4 per cent (y-o-y) on February 4, 2022. Money

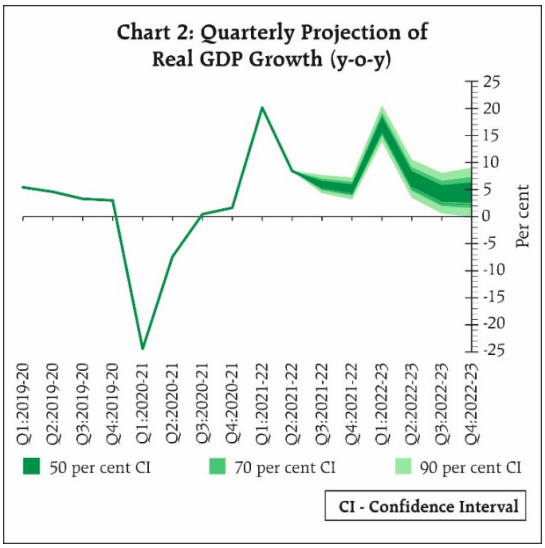
supply (M3) and bank credit by commercial banks rose (y-o-y) by 8.4 per cent and 8.2 per cent, respectively, as on January 28, 2022. India's foreign exchange reserves increased by US$ 55 billion in 2021-22 (up to February 4, 2022) to US$ 632 billion.

Outlook

9. Since the December 2021 MPC meeting, CPI inflation has moved along the expected trajectory. Going forward, vegetables prices are expected to ease further on fresh winter crop arrivals. The softening in pulses and edible oil prices is likely to continue in response to strong supply-side interventions by the Government and increase in domestic production. Prospects of a good *Rabi* harvest add to the optimism on the food price front. Adverse base effect, however, is likely to prevent a substantial easing of food inflation in January. The outlook for crude oil prices is rendered uncertain by geopolitical developments even as supply conditions are expected to turn more favourable during 2022. While cost-push pressures on core inflation may continue in the near term, the Reserve Bank surveys point to some softening in the pace of increase in selling prices by the manufacturing and services firms going forward, reflecting subdued pass-through. On balance, the inflation projection for 2021-22 is retained at 5.3 per cent, with Q4 at 5.7 per cent. On the assumption of a normal monsoon in 2022, CPI inflation for 2022-23 is projected at 4.5 per cent with Q1:2022-23 at 4.9 per cent; Q2 at 5.0 per cent; Q3 at 4.0 per cent; and Q4:2022-23 at 4.2 per cent, with risks broadly balanced (Chart 1).

10. Recovery in domestic economic activity is yet to be broad-based, as private consumption and contact-intensive services remain below pre-pandemic levels. Going forward, the outlook for the *Rabi* crop bodes well for agriculture and rural demand. The impact of the ongoing third wave of the pandemic on the recovery is likely to be limited relative to the earlier waves, improving the outlook for contact-intensive services and urban demand. The announcements in the Union Budget 2022-23 on boosting public infrastructure through enhanced capital expenditure are expected to augment growth and crowd in private investment through large multiplier effects. The pick-up in non-food bank credit, supportive monetary and liquidity conditions, sustained buoyancy in merchandise exports, improving capacity utilisation and stable business outlook augur well for aggregate demand. Global financial market volatility, elevated international commodity prices, especially crude oil, and continuing global supply-side disruptions pose downside risks to the outlook. Taking all these factors into consideration, the real GDP growth for 2022-23 is projected at 7.8 per cent with Q1:2022-23 at 17.2 per cent; Q2 at 7.0 per cent; Q3 at 4.3 per cent; and Q4:2022-23 at 4.5 per cent (Chart 2).





11. The MPC notes that inflation is likely to moderate in H1:2022-23 and move closer to the target rate thereafter, providing room to remain accommodative. Timely and apposite supply side measures from the Government have substantially helped contain inflationary pressures. The potential pick up of input costs is a contingent risk, especially if international crude oil prices remain elevated. The pace of the domestic recovery is catching up with pre-pandemic trends, but private consumption is still lagging. COVID-19 continues to impart some uncertainty to the future outlook. Measures announced in the Union Budget 2022-23 should boost aggregate demand. The global macroeconomic environment is, however, characterised by deceleration in global demand in 2022, with increasing headwinds from financial market volatility induced by monetary policy normalisation in the systemic advanced economies (AEs) and inflationary pressures from persisting supply chain disruptions. Accordingly, the MPC judges that the ongoing domestic recovery is still incomplete and needs continued policy support. It is in this context that the MPC has decided to keep the policy repo rate unchanged at 4 per cent and to continue with an accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

12. All members of the MPC – Dr. Shashanka Bhide, Dr. Ashima Goyal, Prof. Jayanth R. Varma, Dr. Mridul K. Saggar, Dr. Michael Debabrata Patra and Shri Shaktikanta Das – unanimously voted to keep the policy repo rate unchanged at 4.0 per cent.

13. All members, namely, Dr. Shashanka Bhide, Dr. Ashima Goyal, Dr. Mridul K. Saggar, Dr. Michael Debabrata Patra and Shri Shaktikanta Das, except Prof. Jayanth R. Varma, voted to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. Prof. Jayanth R. Varma expressed reservations on this part of the resolution.

14. The minutes of the MPC's meeting will be published on February 24, 2022.

15. The next meeting of the MPC is scheduled during April 6-8, 2022.

(Yogesh Dayal)
Chief General Manager

Press Release: 2021-2022/1693

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February 10, 2022

Statement on Development and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) liquidity measures; (ii) financial markets; and (iii) payment and settlement systems.

I. Liquidity Measures

1. Extension of Term Liquidity Facility of ₹50,000 crore to Emergency Health Services

On May 5, 2021, an on-tap liquidity window of ₹50,000 crore at the repo rate with tenors of up to three years was announced to boost provision of immediate liquidity for ramping up COVID-19 related healthcare infrastructure and services in the country. Banks were incentivised for quick delivery of credit under the scheme through extension of priority sector classification to such lending up to March 31, 2022. Banks were expected to create a COVID-19 loan book under the scheme. By way of an additional incentive, such banks were eligible to park their surplus liquidity up to the size of the COVID-19 loan book with the RBI under the reverse repo window at a rate 25 bps lower than the repo rate, i.e., 40 bps higher than the reverse repo rate. Banks have deployed their own funds to the tune of ₹9,654 crore (up to February 4, 2022) towards COVID-19 related emergency health services. In view of the response to the scheme, it is now proposed to extend this window up to June 30, 2022 from March 31, 2022 as announced earlier.

2. Extension of On-tap Liquidity Window for Contact-intensive Sectors

On June 4, 2021, it was decided to open a separate liquidity window of ₹15,000 crore at the repo rate with tenors of up to three years available till March 31, 2022 for certain contact-intensive sectors. By way of an incentive, such banks were eligible to park their surplus liquidity up to the size of the COVID-19 loan book, created under this scheme with the RBI. The amount in this COVID-19 loan book attracted a rate which is 25 bps lower than the repo rate or, termed in a different way, 40 bps higher than the reverse repo rate. Banks desirous of deploying their own resources without availing funds from the RBI under the scheme for lending were also eligible for this incentive. Banks have deployed their own funds to the tune of ₹5,041 crore (up to February 4, 2022) to the entities under contact intensive sector. In view of the response to the scheme, it is now proposed to extend this window up to June 30, 2022.

II. Financial Markets

3. Voluntary Retention Route (VRR) – Enhancement of Limits

The Voluntary Retention Route (VRR) for investment in government and corporate debt securities by Foreign Portfolio Investors (FPIs) was introduced on March 01, 2019 with a view to facilitating stable investments in debt instruments issued in the country. The Route sought to provide a separate channel, broadly free of macro-prudential controls, to FPIs with long-term investment horizons. A dedicated investment limit of ₹1,50,000 crore was set for investments under the VRR. Given the positive response to the VRR as evident from the near exhaustion of the current limit, it is proposed to increase the investment limit under VRR by ₹1,00,000 crore to ₹2,50,000 crore with effect from April 1, 2022. The revised investment limits are being notified today.

4. Review of Credit Default Swaps (CDS) Guidelines

Guidelines for Credit Default Swaps (CDS) were last issued in January 2013. Given the importance of the CDS market for the development of a liquid market for corporate bonds, especially for the bonds of lower rated issuers, it was announced in the Statement on Developmental and Regulatory Policies of December 4, 2020 that these guidelines would be reviewed. Accordingly, draft guidelines were issued on

February 16, 2021 for public consultation. Taking into account the feedback received, the final Directions are being issued today.

5. Permitting Banks to Deal in offshore Foreign Currency Settled Rupee Derivatives Market

Banks in India were permitted in June 2019 to offer Rupee interest rate derivatives to non-residents to hedge their interest rate risk. Overseas entities were also permitted to undertake Overnight Indexed Swap (OIS) transactions for purposes other than hedging with banks in India either directly or on a back-to-back basis through a foreign branch/parent/group entity (foreign counterpart) of the market-maker in India. The initiative has added to liquidity in the domestic OIS market, promoted diversity in participation and reduced the segmentation between the onshore and offshore markets. With a view to providing a further fillip to the interest rate derivative market in the country, removing the segmentation between onshore and offshore markets and improving the efficiency of price discovery, it has been decided to allow banks in India to undertake transactions in the offshore Foreign Currency Settled Overnight Indexed Swap (FCS-OIS) market with non-residents and other market makers. Banks may participate through their branches in India, their foreign branches or through their IFSC Banking Units. Necessary directions are being issued today.

III. Payment and Settlement Systems

6. Enhancement of the Cap under e-RUPI (Prepaid digital Vouchers using UPI)

The e-RUPI prepaid digital voucher, developed by the National Payments Corporation of India (NPCI) and launched in August 2021, is a person-specific and purpose-specific cashless voucher and can be used by individuals, corporates or governments. e-RUPI runs on the UPI platform and has a cap of ₹10,000/- per voucher and each voucher can be used / redeemed only once. e-RUPI vouchers are presently being used largely for COVID-19 vaccination purposes. There are other use cases being actively considered by various State Government and Central Government Ministries / Departments.

To facilitate digital delivery of various government schemes to the beneficiaries, it is proposed to increase the cap on amount for e-RUPI vouchers issued by Governments to ₹1,00,000/- per voucher and allow use of the e-RUPI voucher multiple times (until the amount of the voucher is completely redeemed). Necessary instructions to NPCI will be issued separately.

7. Enabling Better Infrastructure for MSME Receivables Financing – Increasing NACH Mandate Limit for TReDS Settlements

Trade Receivables Discounting System (TReDS) facilitates discounting / financing of receivables of Micro, Small and Medium Enterprises (MSMEs). TReDS settlements are carried out through mandates in the National Automated Clearing House (NACH) system. Presently the amount of the NACH mandate is capped at ₹ 1 crore.

To encourage innovation and competition through increased participation, 'on-tap' authorisation of TReDS operators was introduced by Reserve Bank in October 2019. Effective July 1, 2020 the Central Government has revised the definition of MSMEs with linkage to their annual turnover as well. Keeping in view the growing liquidity requirements of the MSMEs and the requests received from the TReDS platforms, it is proposed to increase the NACH mandate limit to ₹ 3 crore for TReDS settlements.

Necessary instructions will be issued separately.

8. Master Direction (MD) on IT Outsourcing and Master Direction (MD) on Information Technology Governance, Risk, Controls and Assurance Practices

The financial system is seeing extensive leveraging and outsourcing of critical IT services by Regulated Entities to get easier access to newer technologies through financial technology players to improve efficiencies. These arrangements expose them to significant financial, operational and reputational risks. Similarly, increasing dependence of customers on digital channels to avail banking services makes it imperative for Regulated Entities to focus on operational resilience.

It is, therefore, felt that aspects such as risk management framework for IT outsourcing, managing concentration risk, periodic risk assessment and outsourcing to foreign service providers require suitable regulatory guidelines. Guidelines relating

to Information Security Governance and Controls, Business Continuity Management and Information Systems Audit also require to be updated and consolidated.

Accordingly, the Reserve Bank proposes to issue guidelines addressing the above aspects. Two draft directions will be issued for comments of stakeholders and members of the public: (i) Reserve Bank of India (IT Outsourcing) Directions, 2022 ; and (ii) Reserve Bank of India (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2022.

(Yogesh Dayal)
Chief General Manager

Press Release: 2021-2022/1694

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RBI Monetary Policy Statement

February 2022

"Based on an assessment of the current macroeconomic situation and the outlook, the RBI Monetary Policy Committee voted unanimously to keep the policy repo rate unchanged at 4 per cent

RBI Monetary Policy Statement

February 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 10th February 2022 and based on an assessment of the current macroeconomic situation and the outlook, and it voted unanimously to keep the policy repo rate unchanged at 4 per cent. The MPC decided by a majority of 5 to 1 to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy while ensuring that inflation remains within the target going forward. The marginal standing facility (MSF) rate and the Bank Rate remain unchanged at 4.25 per cent. The reverse repo rate also remains unchanged at 3.35 per cent.

We are pleased to share that today's announcements included some of the key recommendations made by the ASSOCHAM's Expectation & Recommendation on RBI Bi-Monthly Monetary Policy Statement for 2021-22.

Continuing The Accommodative Stance

- RBI to continue with an accommodative stance to revive and sustain growth on a durable basis.
- RBI keeps benchmark lending rate unchanged 9th time in a row at 4 per cent.

In India, real GDP growth at 9.2 per cent for 2021-22 takes it modestly above the level of GDP in 2019-20. Private consumption, the mainstay of domestic demand, continues to trail its pre-pandemic level. The persistent increase in international commodity prices, a surge in the volatility of global financial markets and global supply bottlenecks can exacerbate risks to the outlook.

Assessment of Growth and Inflation

- Going forward, the Government's thrust on capital expenditure and exports are expected to enhance productive capacity and strengthen aggregate demand. This would also crowd in private investment. The conducive financial conditions engendered by the RBI's policy actions will provide impetus to investment activity. The surveys done by the RBI reveal that capacity utilisation is rising, and the outlook on business and consumer confidence remains in optimistic territory, which should support investment as well as consumer demand. The prospects for agriculture have brightened on good progress of winter crop sowing.
- Overall, there is some loss of near-term growth momentum while global factors are turning adverse. Looking ahead, domestic growth drivers are gradually improving. Considering all these factors, real GDP growth is projected at 7.8 per cent for 2022-23 with Q1:2022-23 at 17.2 per cent; Q2 at 7.0 per cent; Q3 at 4.3 per cent; and Q4 at 4.5 per cent.
- The CPI inflation trajectory has moved in close alignment with our projections. In particular, the softening of food prices is providing welcome relief.
- However, the hardening of crude oil prices presents a significant upside risk to the inflation outlook. Core inflation remains elevated at tolerance testing levels, although the continuing pass-through of tax cuts relating to petrol and diesel last November would help to moderate input cost pressures to some extent. The transmission of input cost pressures to selling prices remains muted given the continuing slack in demand.

The improving prospects for foodgrains production and the expected easing of vegetable prices on fresh winter crop arrivals are adding further optimism. Moreover, the softening of pulses and edible oil prices are likely to continue in response to strong supply-side interventions by the Government and an increase in domestic production.

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At the current juncture, the conduct of domestic monetary policy is primarily attuned to the evolving inflation and growth dynamics even as we remain watchful of spillovers from the uncertain global developments and divergent monetary policy responses.

- Further, as risks from Omicron wane and supply chain pressures moderate, core inflation could soften. On balance, the inflation projection for 2021-22 is retained at 5.3 per cent, with Q4 at 5.7 per cent on account of unfavourable base effects that ease subsequently. In particular, the CPI reading for January 2022 is expected to move closer to the upper tolerance band, primarily due to adverse base effects. Taking all these factors into consideration and on the assumption of a normal monsoon, CPI inflation for 2022-23 is projected at 4.5 per cent with Q1:2022-23 at 4.9 per cent; Q2 at 5.0 per cent; Q3 at 4.0 per cent; and Q4 at 4.2 per cent, with risks, broadly balanced.
- Our monetary policy would continue to be guided by its primary mandate of price stability over the medium term while ensuring a strong and sustained economic recovery. As stated by me earlier, our actions will be calibrated and well-telegraphed.

Liquidity and Financial Market Conditions

Overall, the financial sector has remained fully functional and has anchored the process of recovery. In our assessment, the policy actions of the RBI have yielded the desired results in a smooth and orderly manner.

- The pandemic has delivered a once in a century crisis, with a health shock morphing into a macroeconomic and financial shock. The RBI undertook many measures to deal with such an exceptional situation. Consequently, borrowing costs fell to their lowest levels in decades and spreads narrowed across rating cohorts. Record levels of government securities, corporate bonds and debentures were issued. Corporate entities have deleveraged seamlessly and reduced high-cost debt while improving profitability and retained earnings for future CAPEX.
- With these objectives being achieved on an ongoing basis, the Reserve Bank has turned to rebalance liquidity on a dynamic basis while maintaining adequate liquidity in support of its accommodative stance. This rebalancing has involved two-sided operations: first, rebalancing liquidity from the overnight fixed-rate reverse repo towards the 14-day variable rate reverse repo (VRRR) auction as the main operation, supported by fine-tuning auctions of varying tenors as envisaged in the Revised Liquidity Management Framework of February 2020; and second, conducting repo auctions of 1-3 day maturities to meet transient liquidity mismatches and shortages, for instance in the recent case of more than expected GST outflows during the third week of January 2022. The key to effective liquidity management is the 'timing' and having a nuanced and nimble-footed approach that responds swiftly to the manner in which liquidity tilts.

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As a result of RBI's rebalancing operations, the daily average absorption under the fixed-rate reverse repo has moderated sharply since August 2021, when rebalancing started. However, overall system liquidity remains in ample surplus, though it has moderated over the same period.

- Reflecting the migration of surplus liquidity from the overnight window to longer tenors, the effective reverse repo rate - the weighted average rate of the fixed-rate reverse repo and the VRRRs of longer maturity - increased from 3.37 per cent as at end-August 2021 to 3.87 per cent as of February 4, 2022. It may be recalled that while instituting the revised liquidity management framework on February 6, 2020, the daily fixed rate repo and the four 14-day term repos within a reporting fortnight were withdrawn. Given the pandemic and related work from home and social distancing protocols, the MSF and the fixed-rate reverse repo windows were made operational throughout the day, instead of only at the end of the day under normal circumstances. This passive mode of liquidity management worked well through pandemic conditions in ensuring adequate provision/absorption of liquidity as warranted by the evolving market conditions.
- With the progressive return of normalcy, including transient demand for liquidity from the RBI, it is logical to restore the revised liquidity management framework to make it more flexible and agile. Accordingly, four decisions have been taken. First, variable rate repo operations of varying tenors will henceforth be conducted as and when warranted by the evolving liquidity and financial conditions within the cash reserve ratio (CRR) maintenance cycle. Second, variable rate repos (VRRs) and variable rate reverse repos (VRRRs) of 14-day tenor will operate as the primary liquidity management tool based on liquidity conditions. They will be conducted to coincide with the CRR maintenance cycle. Third, fine-tuning operations will support these primary operations to tide over any unanticipated liquidity changes during the reserve maintenance period. Auctions of longer maturity will also be conducted as warranted. Fourth, with effect from March 1, 2022, the Fixed Rate Reverse Repo and the MSF operations will be available only during 17.30-23.59 hours on all days and not during 09.00-23.59 hours, as instituted from March 30, 2020, to deal with the pandemic situation. Market participants are advised to shift balances out of the fixed-rate reverse repo into VRRR auctions and avail the automated sweep-in and sweep-out (ASISO) facility in the e-Kuber portal for operational convenience.

In the forex market, the Indian rupee (INR) has shown resilience in the face of global spillovers, even relative to EME peers. India's external sector sustainability is anchored by high foreign exchange reserve buffers and a modest level of the current account deficit (CAD).

The merchandise trade deficit has widened in recent months partly due to elevated crude oil prices and a rise in non-oil imports in line with the domestic economic recovery.

- In H1:2021-22, the CAD was 0.2 per cent of GDP, underpinned by robust exports of goods and services. Buoyant services exports led by IT services with strong prospects going forward are, however, likely to keep the CAD contained well below 2.0 per cent of GDP during 2021-22. Moreover, foreign direct investment inflows remain strong, which along with other forms of capital inflows, are expected to comfortably finance this modest level of the CAD.

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Further, while the RBI will continue to focus on the smooth completion of the Government borrowing programme, market participants also have a stake in the orderly evolution of financial conditions and the yield curve.

- In a global environment rendered highly volatile and uncertain by diverging monetary policy stances, geo-political tensions, elevated crude oil prices and persistent supply bottlenecks, emerging economies are vulnerable to destabilising global spillovers on an ongoing basis. Thus, policymakers face daunting challenges even as recovery from the pandemic remains incomplete. On its part, the Reserve Bank has been and will continue to insulate the domestic economy and financial markets from these spillovers. It is expected that market participants will engage responsibly and contribute to cooperative outcomes that benefit all.
- A strong and well-functioning financial sector fortifies the foundations of growth and development. The Reserve Bank has accorded the highest priority to preserving financial stability by taking quick and decisive steps to ease liquidity constraints, restore market confidence and prevent contagion to other segments of the financial market. We have also been strengthening the regulatory and supervisory framework for both banking and non-bank financial sectors to proactively identify, assess and deal with vulnerabilities.

Despite the pandemic induced bouts of volatility, the Indian financial system has remained resilient and is now in a better position to meet the credit demands as recovery takes hold and investment activity picks up.

- The balance sheets of Scheduled Commercial Banks (SCBs) are relatively stronger with higher capital adequacy, reduced NPA, higher provisioning cover and improved profitability than in the previous years.
- However, we have to be watchful of the pandemic's impact on the banking and NBFC sectors when the effects of regulatory reliefs and resolutions entirely work their way through. Banks and other financial entities would be well advised to strengthen their corporate governance and risk management strategies to build resilience in an increasingly dynamic and uncertain economic environment. They also need to continue the process of capital augmentation and build up appropriate buffers.

Additional Measures

The Voluntary Retention Route (VRR) scheme was introduced in March 2019 to facilitate long-term investment by Foreign Portfolio Investors (FPIs) in debt securities issued by the government and the corporates.

- On-tap liquidity facilities of ₹50,000 crores and ₹15,000 crores for emergency health services and contact-intensive sectors, respectively, were announced in May and June 2021 during the second wave of the Pandemic. Banks were given certain incentives for lending under the two schemes. On account of the continued uncertainties brought on by the third wave, the two schemes are being extended from March 31, 2022, to June 30, 2022.
- The response to the VRR scheme has been very encouraging. It is, therefore, proposed to enhance the limit for investments under the scheme by ₹1.0 lakh crore from ₹1.5 lakh crore at present to ₹2.5 lakh crore with effect from April 1, 2022. This will provide access to additional sources of capital for the domestic debt market, including g-secs.

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The Trade Receivables Discounting System (TReDS) facilitates the financing of trade receivables of Micro, Small and Medium Enterprises (MSMEs). Transactions in TReDS are settled through the National Automated Clearing House (NACH) system.

- The guidelines for Credit Default Swaps (CDS) initially issued in 2013 were reviewed and draft guidelines were issued in February 2021 for public comments. Taking into account the feedback received, the final CDS Directions are being issued today. These guidelines will facilitate the development of a credit derivatives market and deepen the corporate bond market in India.
- Banks in India have already been permitted to offer Rupee interest rate derivatives such as overnight indexed swaps (OIS) to non-residents. Now it has been decided to allow banks in India to undertake transactions in the offshore Foreign Currency Settled-Overnight Indexed Swap (FCS-OIS) market with non-residents and other market makers. This will reduce the segmentation between the onshore and offshore markets, enable more efficient price discovery and further deepen the interest rate derivatives market in India.
- The e-RUPI pre-paid digital voucher developed by the NPCI was launched in August 2021. The single-use cashless payment voucher has a cap of ₹10,000. It is now proposed to increase the cap of e-RUPI vouchers issued by the Central government and State governments from ₹10,000 to ₹1,00,000 per voucher and permit such e-RUPI vouchers to be used more than once (until the amount of the voucher is completely redeemed). This will further facilitate the delivery of various government schemes to the beneficiaries more efficiently.
- Keeping in view the requests received from stakeholders and to further enhance the ease of financing the growing liquidity requirements of MSMEs, it is proposed to increase the NACH mandate limit from ₹1 crore at present to ₹3 crores for TReDS related settlements.
- ·Extensive outsourcing of critical IT services, leveraging of technology by the Regulated Entities of RBI and increasing use of digital channels by customers expose the Regulated Entities to significant financial, operational and reputational risks. A need was, therefore, felt to review and consolidate the extant guidelines. Accordingly, two draft directions will be issued for comments of stakeholders and members of the public: (i) Reserve Bank of India (IT Outsourcing) Directions, 2022; and (ii) Reserve Bank of India (Information Technology Governance, Risk, Controls and Assurance Practices) Directions, 2022.