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Central Bank Policy

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Abstract—*The Reserve Bank of India, the nation's central bank, began operations on 1935. It was established with the objective of ensuring monetary stability and operating the currency and credit system of the country to its advantage. Its functions comprise monetary management, foreign exchange and reserves management, government debt management, financial apart from currency management and acting as banker to the banks and to the Government. The Bank today focuses, among other things, on maintaining price and financial stability; ensuring credit flow to productive sectors of the economy; managing supply of good currency notes within the country; .*

1. INTRODUCTION

Since 1935, when we began operations, we stood at the centre of India's financial system with a fundamental commitment to maintaining the nation's monetary and financial stability. From ensuring stability of interest and exchange rates to providing liquidity and an adequate supply of currency and credit for the real sector; fro m ensuring bank penetration and safety of depositors funds to promoting and developing financial institutions and markets and maintaining the stability of the financial system through continued macro- financial surveillance, the reserve bank plays a crucial role in the economy. Our decisions tough the daily life of all Indians and help chart the country's current and future economic and financial course.

2. MAIN ACTIVITIES OF RBI

1 Managed by central board of directors.
2 India's monetary authority.
3 supervisor of financial system
4 Issuer of currency
5 Manager of foreign exchange reserves.
6 Banker and debt manager to government
7 Supervisor of payment system
8 Banker to banks.
9 Maintain financial stability
10 Development functions.

3. POLICY STANCE

To summaries, softer readings on inflation are expected to come in through the first half of 2015-16 before firming up to below 6 per cent in the second half. The fiscal consolidation programmer, while delayed, may compensate in quality, especially if state governments are cooperative. Given low capacity utilization and still-weak indicators of production and credit off-take, it is appropriate for the Reserve Bank to be pre-emptive in its policy action to utilize available space for monetary accommodation.

4. CONSEQUENTLY, IT HAS BEEN DECIDED TO:

1. Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis Points from 7.75 per cent to 7.5 per cent with immediate effect
2. Keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
3. Continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at The LAF repo rate and liquidity under 7-dayand 14-day term repos of up to 0.75 per cent Of NDTL of the banking system through auctions; and
4. Continue with daily variable rate repos and reverse repos to smooth liquidity. Consequently, the reverse repo rate under the LAF stands adjusted to 6.5 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 8.5per cent with immediate effect.

5. RISK

Use and Misuse of Credit

That brings me to a widespread concern of the regulators like the Reserve Bank of India over corporate leverage and the prevailing credit culture. One challenge that some corporate might face, going ahead, is in terms of raising resources – not because of non-availability of resources, nor for lack of creditworthy business opportunities but because of how the debtors respect their commitments as also an evolving thinking on 'efficiency imperative' in credit dispensation. It is very likely that the days ahead will experience enhanced scrutiny of credit decisions of banks by depositors and tax payers, besides shareholders. Is it all because of the deteriorating credit culture? We need to examine. Banks form the backbone of our financial system and carry out an important function, viz., and reaching financial savings to those in need of it. Thus, credit is the other end of this intermediation process and we all must understand the etymology of the word 'credit' and respect the semantics. The only way we address the situation is responsible use of credit.

Conclusion

The sustainable solution for risk mitigation lies, to a great Extent, in knowledge leadership. But India as a country has to make that leap in order to develop sustainable source of leadership. And such leaps will have to be enabled at our educational institutions, vocational or otherwise. More and more institutions of excellence must be encouraged to serve as incubators for legions of technology break throughs.The question we require to pose is what stops us from replicating such innovation centric knowledge hubs. Knowledge leadership doesn't imply that Indian industry as a whole will be insulated from churning. After all there is only one company common between the Dow Jones index of the early twentieth century and twenty first century. It rather means that such leadership will entail that for every loser in such an enterprise, there are multiple winners. I wish you all the very best and hope you will have fruitful discussions on a broad range of themes starting from 'risk analytics' to 'regulatory risks' to 'Digital forensics' to 'risks from work place of the future' and finally to 'climate change and sustainability risks'.

6. THE CHALLENGES AHEAD

Impact of falling oil prices

The oil price fall has definitely been a boon to EMDE, especially countries like India which are energy import dependent. It acts like a fiscal stimulus and world consumption is expected to get a boost as consumers spend less on energy. The oil price decline is beneficial to India, as it results in lower inflation and gives comfort in budget and fiscal port bill. In April-November 2014, it was US$ 90.3 billion, about 28.3 per cent of total import. According to some estimates, a US$ 10 a barrel fall in oil prices will reduce the country's import bill and, hence, the CAD by US$ 10 billion or 0.48 per cent of GDP. Another estimate indicates that 10 per cent reduction in crude oil prices will reduce Consumer Price Index-based inflation by around 20 basis points (bps) and bring about a 30 bps rise in GDP growth

Impact of crises on India

These crises impact India in various ways. Firstly, increased volatility in the exchange rate and equity markets could lead to depletion of foreign exchange reserves, weakness in the economy, increasing threat of rating downgrades, diminishing investor confidence and volatility in capital flows. Second, Balance of Payment (BoP) parameters come under stress due to moderation in growth of major trading partners and Commodity price volatility impacts macro-economic parameters, such as, inflation and fiscal deficit. Third, corporate are unable to raise foreign capital which imports financial problems from off-shore to on-shore and unhedged foreign currency exposures translate into on-balance sheet concerns impacting the credit worthiness of the corporate. Fourth, financial institutions experience difficulties in accessing International financial markets. Fifth, monetary policies of developed countries tend to impact macro-economic parameters of the country, e.g., recent experience of announcement of tapering of asset purchase of the Federal Reserve. On May 22, 2013, Chairman Ben Bernanke first spoke of the possibility of the tapering of Fed's purchases of securities. This and subsequent statements collectively known as 'tapering talk', had a sharp negative impact on the emerging markets. Around the period, domestic concerns pertaining to high CAD, moderation in growth, high fiscal deficit, high inflation and policy uncertainty were some of the major concerns for foreign investors.

7. FOREIGN EXCHANGE RESERVES: THE FIRST LINE OF DEFENCE

Foreign exchange reserve forms the first line of defence to calm volatility in the forex markets and provide adequate liquidity for 'sudden stop' or reversals in the capital flows. Bilateral and multilateral safety nets are also helpful. One response to the global financial crisis was signing of bilateral swap agreements by the Federal Reserve with select central banks. Availability and adequacies of such bilateral/multilateral backstop arrangements is not an easy option during crisis times.

Problem of loan management

The essential components of sound NPA management are:

1. Prevention of NPAs through prudent underwriting
2. Effective early alert system
3. Quick and effective remedial measures to prevent slippage
4. Faster resolution of post slippage

NPAs of SCBs Recovered through Various Channels

(Amount in ₹ Billion)

Year	No.	Particulars	Recovery Channel			Total
			Lok Adalats	DRTs	SARFAESI Act	
2012-13	1	No. of cases referred	8,40,691	13,408	1,90,537	10,44,636
	2	Amount involved	66	310	681	1,058
	3	Amount recovered*	4	44	185	232
	4	3 as per cent of 2	6.1	14.1	27.1	21.9
2013-14	1	No. of cases referred	16,36,957	28,258	1,94,707	18,59,922
	2	Amount involved	232	553	946	1,731
	3	Amount recovered*	14	53	244	311
	4	3 as per cent of 2	6.2	9.5	25.8	18

Notes : 1. * Refers to amount recovered during the given year, which could be with reference to cases referred during the given year as well as during the earlier years.
2. DRTs: Debt Recovery Tribunals.

8. DEVELOPMENTS IN INDIA'S BALANCE OF PAYMENTS DURING THE SECOND QUARTER OF 2014-15

The data on India's balance of payments (BoP) are released by the Reserve Bank on a quarterly basis with a lag of one quarter. This article highlights the major developments in India's BoP during the second quarter (July-September) of 2014-15.

Highlights

- India's current account deficit (CAD) in Q2 of 2014-15 was relatively higher than in the preceding quarter primarily on account of a higher trade deficit
- With global demand conditions remaining subdued, merchandise exports growth slowed, while imports recorded a significant increase.
- The current account deficit (CAD) increased to 2.0 per cent of GDP in Q2 of 2014-15 from 1.7 per cent of GDP in Q2 of 2013-14.
- Net inflows of NRI deposits were lower in Q2 of 2014-15 as compared with the level recorded in the corresponding period of the previous year.
- Net outflow under trade credits and advances at US$ 0.2 billion was much lower in Q2 of 2014-15 than the outflow of US$ 1.9 billion in Q2 of 2013-14.

Table 1: Major items of India's Balance of Payments

(US$ Billion)

	Apr.-Sep.		Jul.-Sep.	
	2014-15 (P)	2013-14 (PR)	2014-15 (P)	2013-14 (PR)
1. Goods Exports	167.0	155.2	85.3	81.2
2. Goods Imports	240.2	238.9	123.8	114.5
3. Trade Balance (1-2)	**-73.2**	**-83.8**	**-38.6**	**-33.3**
4. Services Exports	75.9	73.2	38.4	36.7
5. Services Imports	39.9	37.9	19.4	18.3
6. Net Services (4-5)	**36.1**	**35.2**	**19.0**	**18.4**
7. Goods & Services Balances (3+6)	**-37.1**	**-48.6**	**-19.6**	**-14.9**
8. Primary Income, Net (Compensation of employees and Investment Income)	-13.6	-11.2	-6.9	-6.3
9. Secondary Income, Net (Private Transfers)	32.8	32.8	16.3	16.1
10. Net Income(8+9)	**19.2**	**21.6**	**9.5**	**9.8**
11. Current Account Balance (7+10)	**-17.9**	**-26.9**	**-10.1**	**-5.2**
12. Capital and Financial Account Balance, Net (Excl. change in reserves)	**38.5**	**15.8**	**18.7**	**-4.8**
13.Change in Reserves (-) increase/(+) decrease	-18.1	10.7	-6.9	10.4
14. Errors & Omissions (-)(11+12+13)	2.5	0.5	1.7	0.4

Composition and Ownership Pattern of Deposits with Scheduled Commercial Banks: March 2014

1.The annual survey on 'Composition and Ownership Pattern of Bank Deposits with Scheduled Commercial Banks (SCBs)', includes Regional Rural Banks (RRBs) as on March 31, 2014, was conducted by the Reserve Bank of India through Basic Statistical Returns (BSR)-4System.

2. The data provides branch-wise outstanding deposits as on March 31, according to type of deposits (viz., current, savings and term deposits), and institutional categories of depositors (i.e., Household, Government, Private Corporate (Non-Financial, trends across states, population groups and major bank groups (public sector banks, private sector banks and foreign banks).

Chart 3: Composition of Deposits by Type of Account – According to Population Groups
(As on March 31)

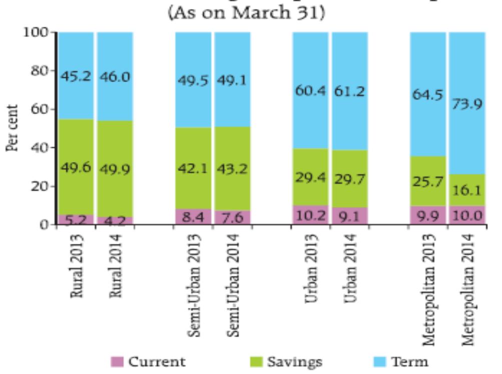
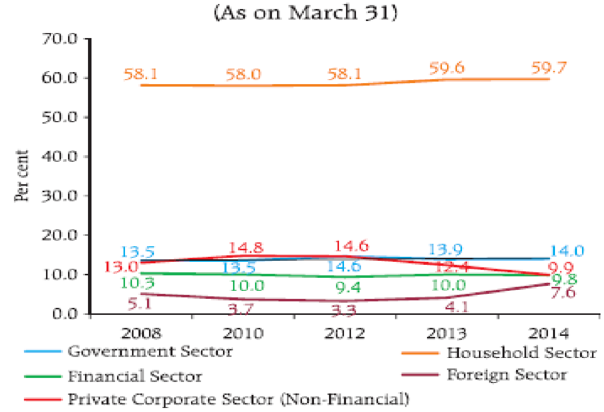
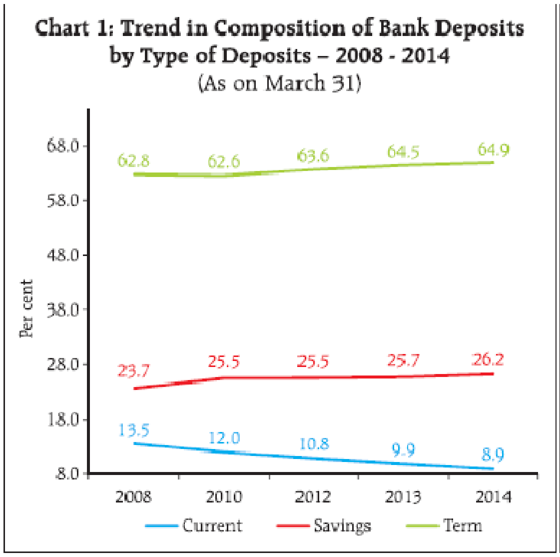


Chart 2: Trend in Ownership Pattern of Bank Deposits – 2008- 2014
(As on March 31)



3 The term deposits remained the largest constituent followed by savings deposits. As on March 31, 2014, term deposits constituted around two-thirds share and savings deposits at around one-fourth share in total deposits



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