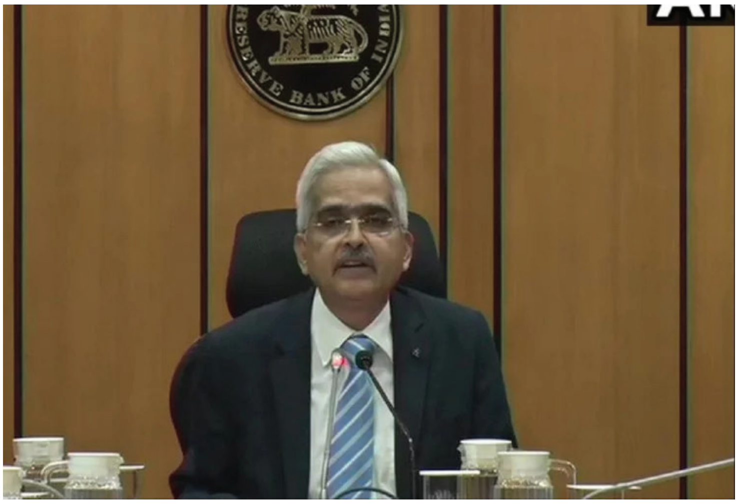
The RBI Governor Announces a Covid-19 Response for Banking and Industry



Below are the key highlights of the monetary and financial markets related measures announced by the RBI Governor on 27th March, 2020 in response to the Covid-19 pandemic. [10]

13. The developmental and regulatory policies can be broadly delineated under four categories: (1) measures to expand liquidity in the system sizeably to ensure that financial markets and institutions are able to function normally in the face of Covid-19-19 related dislocations; (2) steps to reinforce monetary transmission so that bank credit flows on easier terms are sustained to all those who have been affected by the pandemic; (3) efforts to ease financial stress caused by Covid-19-19 disruptions by relaxing repayment pressures and improving access to working capital; and

(4) endeavor to improve the functioning of markets in view of the high volatility experienced with the onset and spread of the pandemic.

I. Liquidity Measures

14. A multi-pronged approach, comprising both targeted and system-wide liquidity provision, has been adopted to ensure that Covid-19-19 related liquidity constraints are eased.

Targeted Long Term Repo Operations (TLTRO)

15. Large sell-offs in the domestic equity, bond and forex markets have intensified redemption pressures. Liquidity premia on instruments such as corporate bonds, commercial paper and debentures have surged. Financial conditions for these instruments, which are used, inter alia, to access working capital in the face of the slowdown in bank credit, have also tightened. To mitigate the adverse effects on economic activity leading to pressures on cash flows across sectors, the Reserve Bank will conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to Rs 1,00,000 crore at a floating rate, linked to the policy repo rate.

Liquidity availed under the scheme by banks has to be deployed in investment grade corporate bonds, commercial paper and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 25, 2020.Eligible instruments comprise both primary market issuances and secondary market purchases, including from mutual funds and non-banking finance companies. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio... The first auction of Rs 25,000 crore will be conducted today. The relevant notification is being issued separately.

Cash Reserve Ratio

16. It is observed that, despite ample liquidity in the system, its distribution is highly asymmetrical across the financial system, and starkly so within the banking system. To help banks tide over the disruption caused by Covid-19-19, it has been decided to reduce the cash reserve ratio (CRR) of all banks by 100 basis points to 3.0 per cent of net demand and time liabilities (NDTL) with effect from the reporting fortnight beginning March 28, 2020 for a period of one year.

[10] https://www.cnbctv18.com/finance/heres-full-monetary-policy-speech-of-rbi-governor-shaktikanta-das-5571491.htm

This reduction in the CRR would release primary liquidity of about Rs 1,37,000 crore uniformly across the banking system in proportion to liabilities of constituents rather than in relation to holdings of excess SLR…

Marginal Standing Facility

18. In view of the exceptionally high volatility in domestic financial markets which brings in phases of liquidity stress and to provide comfort to the banking system, it has been decided to increase the accommodation under the marginal standing facility (MSF) from 2 per cent of the statutory liquidity ratio (SLR) to 3 per cent with immediate effect. This measure will be applicable up to June 30, 2020. This measure should provide comfort to the banking system by allowing it to avail an additional Rs 1,37,000 crore of liquidity under the LAF window in times of stress at the reduced MSF rate announced in the MPC's resolution.

19. These three measures relating to TLTRO, CRR and MSF will inject a total liquidity of 3.74 lakh crore to the system.

II. Regulation and Supervision

21. Alongside liquidity measures, it is important that steps are taken to mitigate the burden of debt servicing brought about by disruptions on account of Covid-19-19 pandemic. Such steps, in turn, will go a long way to prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and provide relief to borrowers in these extraordinarily troubled times. These measures include moratorium on term loans; deferring interest payments on working capital; easing of working capital financing; deferment of implementation of the net stable funding ratio; and the last tranche of the capital conservation buffer.

Moratorium on Term Loans

22. All commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions) ("lending institutions") are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020.

Deferment of Interest on Working Capital Facilities

23. In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are being permitted to allow a deferment of three months on payment of interest in respect of all such facilities outstanding as on March 1, 2020. The accumulated interest for the period will be paid after the expiry of the deferment period. The moratorium on term loans and the deferring of interest payments on working capital will not result in asset classification downgrade.

Easing of Working Capital Financing

24. In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are allowed to recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. Such changes will not result in asset classification downgrade.

25. The moratorium on term loans, the deferring of interest payments on working capital and the easing of working capital financing will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions. Hence, there will be no adverse impact on the credit… history of the beneficiaries.

III. Financial Markets

28. The measure for financial markets assumes importance in the context of the increased volatility of the rupee caused by the impact of Covid-19 on currency markets. Permitting Banks to Deal in Offshore Non-deliverable

30. Since the last MPC meeting of February 2020, the Reserve Bank has injected liquidity of Rs 2.8 lakh crore through various instruments, equivalent to 1.4 per cent of our GDP. Together with the measures announced today, RBI's liquidity injection works out to about 3.2 per cent of GDP.

31. The RBI will continue to remain vigilant and take whatever steps are necessary to mitigate the economic impact of Covid-19-19 and preserve financial stability. As I had stated earlier, all instruments – conventional and unconventional – are on the table…

[I] http://censusindia.gov.in/2011census/B-series/B_4.html

[II] http://censusindia.gov.in/2011census/B-series/B_6.html

[III] https://www.business-standard.com/article/news-ians/33-66-crore-bank-accounts-opened-under-jan-dhan-yojana - 11901080 \1 2 02_1.html

[IV] https://economictimes.indiatimes.com/industry/banking/finance/over-10-lakh-cr-loans-sanctioned-under-mudra-yojana/article show/72441223.cms?from=mdr

[V] https://economictimes.indiatimes.com/industry/banking/finance/over-10-lakh-cr-loans-sanctioned-under-mudra-yojana/articles how/72441223.cms?from=mdr

[VI] https://www.indiatoday.in/india/story/govt-drive-remaining-farmers-kisan-credit-cards-minister-1571387-2019-07-19

[VII] https://pib.gov.in/newsite/PrintRelease.aspx?relid=178067

[VIII] https://dfpd.gov.in/E-Book/examples/pdf/AnnualReport.html?PTH=/1sGbO2W68mUlunCgKmpnLF5WHm/Ar2020.pdf#bo ok /17

[IX] https://dfpd.gov.in/E-Book/examples/pdf/AnnualReport.html?PTH=/1sGbO2W68mUlunCgKmpnLF5WHm/Ar2020.pdf#book /17

[X] https://dfpd.gov.in/E-Book/examples/pdf/AnnualReport.html?PTH=/1sGbO2W68mUlunCgKmpnLF5WHm/Ar2020.pdf#book /31

[XI] https://economictimes.indiatimes.com/industry/banking/finance/over-10-lakh-cr-loans-sanctioned-under-mudra-yojana/article show/72441223.cms?from=mdr

[XII] https://www.thehindubusinessline.com/economy/direct-benefit-transfer-of-subsidies-crosses-3-lakh-cr-mark-in-2018-19/artic le26913247.ece

[XIII] https://economictimes.indiatimes.com/news/economy/policy/one-nation-one-ration-card-inside-food-ministrys-ambitious-sc heme-to-make-ration-cards-portable/articleshow/72089023.cms?from=mdr