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REGULATORY UPDATE

Key Highlights of Covid-19 Relief Package announced by RBI On 17.04.2020

Key highlights of measures taken by the RBI to tackle COVID-19 crisis vide RBI's Governor's address on 17 April 2020

The RBI Governor addressing the nation inter alia gave a brief assessment of the current Economic scenario as stated below:

- The IMF's Economic Counsellor has named it the 'Great Lockdown', estimating the cumulative loss to global GDP over 2020 and 2021 at around US $ 9 trillion– greater than the economies of Japan and Germany, combined.

- India is among the handful of countries that is projected to cling on tenuously to positive growth (at 1.9 per cent). In fact, this is the highest growth rate among the G-20 economies.

- The WTO sees global merchandise trade contracting by as much as 13-32 per cent in 2020.

- For 2021, the IMF projects sizable V-shaped recoveries: close to 9 percentage points for global GDP.

- India is expected to post a sharp turnaround and resume its pre-COVID pre-slowdown trajectory by growing at 7.4 per cent in 2021-22.

- Pre-monsoon kharif sowing had begun strongly, with acreage of paddy – the principal kharif crop – up by 37 per cent in comparison with the last season.

- IMD forecasts a normal south west monsoon for the 2020 season, with rainfall expected to be 100 per cent of the long period average.

- Revival in electricity generation a coincident indicator of demand – that had commenced from January 2020, has been halted by a sharp fall in daily demand in the range of 25-30 per cent after the lockdown announcement on March 25, 2020.

- Contraction in exports in March 2020 at (-) 34.6 per cent has turned out to be much more severe than during the global financial crisis. Merchandise imports also fell by 28.7 per cent in March across the board, barring transport equipment. Consequently, the trade deficit declined to US$ 9.8 billion in March 2020 from US$ 11 billion a year ago.

- No downtime of internet or mobile banking. ATM operations stood at over 91 per cent of full capacity. The average availability of Business Correspondents (BCs) is over 80 per cent.

- Since the February 2020 MPC meeting, the surplus liquidity in the banking system has increased sharply in the wake of sustained government spending. Systemic liquidity surplus, as reflected in net absorptions under the LAF, averaged INR 4360 billion during the period March 27- April 14, 2020.

- Another TLTRO auction of INR 250 billion will be conducted today (i.e. on April 17, 2020). In response to these auctions, financial conditions have eased considerably, as reflected in the spreads on money and bond market instruments. Moreover, activity in the corporate bond market has picked up appreciably, with several corporates making new issuances.

In the backdrop of the current COVID-19 crisis, RBI has introduced certain additional measures to maintain adequate liquidity in the system, facilitate bank credit flow, ease financial stress and enable normal functioning of the markets.

A brief summary of Measures undertaken are as under:

A. Liquidity Management

Particulars	RBI's Action	Impact
Targeted Long Term Repos Operations (TLTROs)	• TLTRO for an aggregate amount of INR 500 billion to begin with in tranches of appropriate sizes. • The funds availed by banks under TLTRO 2.0 should be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50% of the total amount availed going to small and mid-sized NBFCs and MFIs. • Notification for the first TLTRO 2.0 auction will be issued today.	As per the last meeting of MPC on 27 March, 2020, deployment of TLTRO was largely to bonds issued by public sector entities & large corporates. Accordingly, TLRO 2.0 is targeted at funding small and mid-sized NBFCs and MFIs.

Refinancing facilities for All India Financial Institutions (AIFIs)	• A special refinance facilities for a total amount of INR 500 billion to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs. This will comprise INR 250 billion to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); INR 150 billion to SIDBI for on-lending/refinancing; and INR 100 billion to NHB for supporting housing finance companies (HFCs).	AIFIs play a critical role in meeting the long-term funding requirements of the agriculture and rural sector, small industries, housing finance companies, NBFCs and MFIs. Accordingly, these refinancing facilities will help AIFIs to address the capital needs of their portfolio companies currently under liquidity stress.
Liquidity Adjustment Facility: Fixed Rate Reverse Repo Rate	• Reduced the fixed rate reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 4.0 per cent to 3.75 per cent with immediate effect. • The policy repo rate remains unchanged at 4.40 per cent, and the marginal standing facility rate and the Bank Rate remain unchanged at 4.65 per cent.	This move intends to disincentivize banks from parking surplus liquidity with RBI and to deploy this liquidity as loans to corporates, and institutions including MSMEs and SMEs to address their need for capital.
Ways and Means Advances for States (WMA)	• RBI has decided to increase the WMA limit of states by 60 per cent over and above the level as on March 31, 2020 of INR 350 billion. • The increased limit will be available till September 30, 2020.	This may provide additional capital to states for undertaking COVID-19 containment and mitigation efforts, and to plan their market borrowing programmes better.

B. REGULATORY MEASURES

Particulars	RBI's Action	Impact
Asset classification	• In respect of all accounts for which lending institutions decide to grant moratorium or deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall exclude the moratorium period, i.e., there would be an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. • NBFCs have the flexibility under prescribed accounting standards to consider such relief to their borrowers • With the objective of ensuring that banks maintain sufficient buffers and remain adequately provisioned to meet future challenges, they will maintain higher provision of 10 per cent on all such accounts under the standstill, spread over two quarters, i.e., March, 2020 and June, 2020. These provisions can be adjusted later on against the provisioning requirements for actual slippages in such accounts.	This relaxation in recognition of NPAs would help banks and financial institutions safeguard their balance sheets and retain a healthy asset portfolio.

Extension of resolution time	• Recognizing the challenges to resolution of stressed assets, the period for resolution plan shall be extended by 90 days.	Additional provision of 20 per cent will have to be made if a resolution plan has not been implemented within 300 (instead of 210) days from the date of such default.
Distribution of Dividend	• Scheduled commercial banks and cooperative banks shall not make any further dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further instructions. • This restriction shall be reviewed on the basis of the financial position of banks for the quarter ending September 30, 2020.	Retention of surplus capital to safeguard the balance sheet and health of banks.
Liquidity Coverage Ratio (LCR)	• The LCR requirement for Scheduled Commercial Banks is being brought down from 100 per cent to 80 per cent with immediate effect. • The requirement shall be gradually restored back in two phases – 90 per cent by October 1, 2020 and 100 per cent by April 1, 2021.	Lower LCR requirement addresses systemic liquidity issues of Scheduled Commercial Banks

NBFC Loans to Commercial Real Estate Projects	• NBFCs' loans to delayed commercial real estate projects can be extended by a year without restructuring.	Loans given by NBFCs to real estate companies to get similar benefit as given by scheduled commercial banks which is necessary to protect a critical sector creating significant jobs across India.

C. CONCLUSION

Inflation could recede even further, barring supply disruption shocks and may settle well below the target of 4 per cent by the second half of 2020-21. Such an outlook may offer the required fiscal Cushion to address the intensification of risks to growth and financial stability brought on by COVID-19. This fiscal space may be used effectively and in time.

The RBI will monitor the evolving situation continuously and use all its instruments to address the daunting challenges posed by the pandemic. The overarching objective is to keep the financial system and financial markets sound, liquid and smoothly functioning so that finance keeps flowing to all stakeholders, especially those that are disadvantaged and vulnerable.

For details, please refer the link below to the Governor's Statement dated 17th April 2020:

https://rbidocs.rbi.org.in/rdocs/Content/PDFs/GOVERNORSTATEMENTF22E618703AE48A4B2F6EC4A8003F88D.PDF

DISCLAIMER:

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