

# MONETARY & CREDIT INFORMATION REVIEW



# MCIR

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## Governor's Statement

Shri Shaktikanta Das, Governor, in his statement given on May 22, 2020 said that the release of macroeconomic data, for the first time revealed the damage wrought by COVID-19 and brought forward the need for an off-cycle meeting of the Monetary Policy Committee (MPC) in lieu of the scheduled meeting during June 03 to 05, 2020. The Governor, before laying out the backdrop, the rationale and expected outcomes of the MPC's decision, thanked the committee members for their valuable contributions to the work of the committee in the monetary policy decision.

The Governor, in his statement laid out the outlook for the monetary policy and announced regulatory and developmental measures to complement and amplify the reduction in the policy rate decided by the MPC. Further, he also announced measures to improve the functioning of markets, support exports and imports and ease stress and financial constraints faced by State Governments.

The major highlights of the Governor's statement are outlined below:

### Assessment

- ❑ By all counts, the macroeconomic and financial conditions are austere. The global economy is inexorably headed into recession.
- ❑ The global manufacturing purchasing managers index (PMI) contracted to an 11-year low in April 2020.
- ❑ The volume of world trade can shrink by 13-32 per cent in 2020, as projected by the World Trade Organisation (WTO). World services trade deteriorated in the first quarter of 2020.
- ❑ Relatively unsung, the global policy response by central banks and governments has been unprecedented.
- ❑ Domestic economic activity has been impacted severely due to the lockdown period. The top six industrialised states that account for about 60 per cent of industrial output are largely in red or orange zones.
- ❑ The output of core industries, which constitutes about 40 per cent of overall industrial production, contracted by 6.5 per cent. The inflation outlook has become complicated by the release of partial information on the consumer price index (CPI) by the National Statistical Office (NSO), obscuring a comprehensive assessment of the price situation.
- ❑ In the external sector, India's merchandise exports and imports suffered their worst slump in the last 30 years as COVID-19 paralysed world production and demand. India's merchandise exports plunged by 60.3 per cent in April 2020 while imports contracted by 58.6 per cent. The trade deficit narrowed to US \$6.8 billion in April 2020, lowest since June 2016.
- ❑ India's foreign exchange reserves have increased by US\$ 9.2 billion in 2020-21 so far (up to May 15) to US\$ 487.0 billion – equivalent to a year's imports.

### Outlook

- ❑ The MPC assessed that the inflation outlook is highly uncertain. The supply shock to food prices in April may show persistence over the next few months, depending upon the state of lockdown and the time taken to restore supply chains after relaxation.

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## Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of May in the world of money and credit. MCIR can be accessed at <https://mcir.rbi.org.in> as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at [mcir@rbi.org.in](mailto:mcir@rbi.org.in)

Yogesh Dayal  
Editor

□ The MPC is of the view that that the macro-economic impact of the pandemic is turning out to be more severe than initially anticipated. Beyond the destruction of economic and financial activity, livelihood and health are severely affected. Judging that the risks to growth are acute, while the risks to inflation are likely to be short-lived, the MPC believes that it is essential now to instil confidence and ease financial conditions further. To read the Governor's full statement, please click [here](#).

### Resolution of the Monetary Policy Committee

On the basis of an assessment of the current and evolving macroeconomic situation, the MPC at its meeting held on May 22, 2020 decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 40 bps to 4.0 per cent from 4.40 per cent with immediate effect. Accordingly, the marginal standing facility (MSF) rate and the bank rate stand reduced to 4.25 per cent from 4.65 per cent and the reverse repo rate under the LAF stands reduced to 3.35 per cent from 3.75 per cent.

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

These decisions are in consonance with the objective of achieving the medium-term target for CPI inflation of 4 per cent within a band of +/-2 per cent, while supporting growth. To read more, please click [here](#).

### Statement on Developmental and Regulatory Policies

#### *Measures to Improve the Functioning of Markets*

##### *i) Refinancing Facility for SIDBI*

In order to provide greater flexibility to the Small Industries Development Bank of India (SIDBI) in its operations, the Reserve Bank decided to roll over at the end of the 90th day for another period of 90 days, the special refinance facility of ₹15,000 crore earlier provided by the Reserve Bank to SIDBI for on-lending/refinancing.

##### *ii) Investments by FPIs under the VRR*

In view of difficulties in adhering to the regulatory requirement that at least 75 per cent of allotted limits be invested within three months, expressed by Foreign Portfolio Investors (FPIs) and their custodians due to COVID-19 related disruptions, the Reserve Bank allowed FPIs an additional period of three months to fulfil this requirement.

#### *Measures to support Exports and Imports*

The following measures were taken to support the foreign trade sector:

##### *i) Export Credit*

The Reserve Bank decided to increase the maximum permissible period of pre-shipment and post-shipment

export credit sanctioned by banks from the existing one year to 15 months, for disbursements made up to July 31, 2020. This is in view of genuine difficulties that exports are facing, such as delay in realisation of bills which are adversely affecting their production and realisation cycles.

##### *ii) Liquidity Facility for Exim Bank of India*

The Reserve Bank decided to extend a line of credit of ₹15,000 crore to the EXIM Bank for a period of 90 days from the date of availing with rollover up to a maximum period of one year so as to enable it to avail a US dollar swap facility to meet its foreign exchange requirements.

##### *iii) Extension of Time for Payment for Imports*

In order to provide greater flexibility to importers in managing their operating cycles in a COVID-19 environment, the Reserve Bank decided to extend the time period for completion of remittances against normal imports into India from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020. However, this shall not apply to cases where amounts are withheld towards guarantee of performance.

#### *Measures to Ease Financial Stress*

##### *i) Moratorium on Term Loan Instalments*

In view of the extension of the lockdown and continuing disruptions due to COVID-19 pandemic, the Reserve Bank allowed lending institutions to extend the moratorium on term loan instalments by another three months, i.e., from June 01, 2020 to August 31, 2020.

##### *ii) Deferment of Interest on Working Capital Facilities*

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are permitted to allow a deferment of another three months, from June 01, 2020 to August 31, 2020, in addition to the three months allowed on March 27, 2020 on payment of interest in respect of all such facilities outstanding as on March 01, 2020.

##### *iii) Payment of Interest on Working Capital Facilities for the Deferment Period*

In order to ameliorate the difficulties faced by borrowers in repaying the accumulated interest for the deferment period on working capital facilities in one shot, lending institutions are permitted to convert the accumulated interest on working capital facilities over the deferment period into a funded interest term loan which shall be repayable at the end of current financial year.

##### *iv) Easing of Working Capital Financing*

The statement lays out guidelines for easing of working capital financing, such as, recalculation of drawing power by reducing the margins, reassessing working capital cycle of a borrowing entity till March 31, 2021, providing necessary leeway to lenders to make an informed assessment about COVID-19 impact, among others. To read the full statement, please click [here](#).

## II. Regulation

### COVID-19 Regulatory Package

The Reserve Bank on May 23, 2020 issued detailed instructions to address the issues of repayment pressures and access to working capital in view of the intensification of COVID-19 related disruptions.

#### i) Rescheduling of Payments

The repayment schedule for loans as also their residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

#### ii) Easing of Working Capital Financing

The Reserve Bank as a one time measure allowed lending institutions to recalculate 'drawing power' by reducing the working capital facility margins till August 31, 2020 to borrowers facing stress on account of the economic fallout of the COVID-19 pandemic.

### Asset Classification

The conversion of accumulated interest into Funded Interest Term Loan (FITL) and the changes in the credit terms permitted to borrowers to specifically tide over economic fallout from COVID-19 will not be treated as concessions granted due to financial difficulty of the borrower. Consequently, it will not lead to asset classification downgrade. In respect of accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period shall be excluded by the lending institutions from the number of days past-due. This is for the purpose of asset classification under the Income Recognition and Asset Classification norms.

### Resolution Timelines under the Prudential Framework

The Reserve Bank on May 23, 2020 granted extension for resolution of stressed assets under the Prudential Framework on Resolution of Stressed Assets. The resolution timelines can be extended as under:

i) In respect of accounts which were within the review period as on March 01, 2020, the period from March 01, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the review period. The residual review period shall have the usual 180 days for resolution.

ii) In respect of accounts where the review period was over, but the 180-day resolution period had not expired as on March 01, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

iii) The requirement of making additional provisions specified in the Prudential Framework shall be triggered as and when the extended resolution period expires. To read more, please click [here](#).

### Large Exposures Framework

The Reserve Bank on May 23, 2020 with the objective to facilitate greater flow of resources to corporates as a one-time measure allowed banks to increase their exposure to a group of connected counterparties from 25 per cent to 30 per cent of the eligible capital base of the bank. This is in view of difficulties faced by corporates to raise funds from the capital market due to heightened uncertainty in the backdrop of the COVID-19 pandemic. To read more, please click [here](#).

### Interest Equalisation Scheme

In accordance with the approval of the Government of India, the Reserve Bank of India on May 13, 2020 notified the extension of the Interest Equalisation Scheme (IES) for pre and post shipment rupee export credit for one more year upto March 31, 2021. The extant operational instructions issued by the Reserve Bank under the IES shall continue to remain in force upto March 31, 2021. To read more, please click [here](#).

### Extending of MD on KYC to HFCs

The Reserve Bank on May 19, 2020 extended the Master Direction (MD) on Know Your Customer (KYC) to all Housing Finance Companies (HFCs). The MD on KYC is a consolidation of directions on KYC, Anti-Money Laundering and Combating the Financing of Terrorism and is applicable to all regulated entities of the Reserve Bank. To read more, please click [here](#).

### Change in Bank Rate

The Reserve Bank on May 22, 2020 notified that the bank rate stands revised by 40 bps from 4.65 per cent to 4.25 per cent. Accordingly, all penal interest rates on shortfall in reserve requirements, which are specifically linked to the bank rate also stand revised. This is in accordance with the announcement made in the monetary policy statement 2020-21 on May 22, 2020. To read more, please click [here](#).

### Pre-shipment and Post-shipment Credit

The Reserve Bank on May 23, 2020 decided to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from one year to 15 months, for disbursements made upto July 31, 2020. This is in view of genuine difficulties being faced by exporters such as delay/postponement of orders, delay in realisation of bills, among others due to the disruptions caused due to the COVID-19 pandemic. To read more, please click [here](#).

### III. Financial Markets Regulation

#### Reporting Platform for OTC Derivatives

The Reserve Bank on May 18, 2020 decided that IFSC Banking Units (IBUs) shall report all Over-the-Counter (OTC) foreign exchange, interest rate and credit derivative transactions both interbank and client transactions undertaken by them to the Clearing Corporation of India Limited's (CCIL) reporting platform with effect from June 01, 2020. Additionally, as a one-time measure to ensure completeness of data, all matured and outstanding transactions as on May 31, 2020 shall be reported by July 31, 2020. The CCIL shall communicate the methodology of such reporting to its members. To read more, please click [here](#).

### IV. Foreign Exchange Management

#### Hedging of Foreign Exchange Risk

The Reserve Bank on May 18, 2020 decided that the directions [on risk management and inter-bank dealings – hedging of foreign exchange risk](#) will now come into effect from September 01, 2020. Further, the directions on the participation of [Banks in Offshore Non-deliverable Rupee Derivative Markets](#) dated March 27, 2020 will come into effect from June 01, 2020, as hitherto. This is in view requests received from market participants in the backdrop of the difficulties arising from the outbreak of COVID-19 pandemic. To read more, please click [here](#).

#### Time Limits for Import Payment Settlement

The Reserve Bank on May 22, 2020 extended the time period for completion of remittances against such normal imports (except in cases where amounts are withheld towards guarantee of performance) from six months to 12 months from the date of shipment for imports made on or before July 31, 2020. In terms of [Master Direction on Import of Goods and Services](#) updated as on January 01, 2016, remittances against normal imports (i.e. excluding import of gold/diamonds and precious stones/jewellery) should be completed not later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance. Authorised Dealer banks have been advised to bring this to the notice of constituents concerned. To read more, please click [here](#).

### V. Banker to Government

#### Remittance of Government Receipts

The Reserve Bank on May 29, 2020 advised agency banks that penal interest on delayed reporting of State Government transactions should be calculated as per the instructions given in the Reserve Bank's circular on [Maintenance of State Government Accounts – Recovery of Interest on delayed remittances \(State Government Transactions\)](#) dated March 21, 2007 without any further filters of ₹500/- or below. This is in accordance with the advise of the Office of the Comptroller and Auditor General of India. Accordingly, the circular on [Recovery of Interest on delayed remittance of Government Receipts into Government Account](#) dated September 26, 2019 stands withdrawn from the date of its issue. To read more, please click [here](#).

### VI. Data Releases

Important Data Releases by the Reserve Bank in the month of May 2020:

	Data Release
1	<a href="#">Finances of Non-Government Non-financial (NGNF) Public Limited Companies, 2018-19</a>
2	<a href="#">Overseas Direct Investment for April 2020</a>
3	<a href="#">Monthly Data on India's International Trade in Services - March 2020</a>
4	<a href="#">Quarterly BSR-1: Outstanding Credit of Scheduled Commercial Banks for December 2019</a>

#### RBI Working Paper Series

The Reserve Bank in the month of May 2020 released two publications under its working paper series.

The first working paper titled "Core Inflation Measures in India – An Empirical Evaluation using CPI Data" co-authored by Dr. Janak Raj, Dr. Sangita Misra, Dr. Asish Thomas George and Joice John assesses 11 possible candidates for their suitability as measures of core inflation in India based on Consumer Price Index (CPI) (2012=100) for the period 2012 to 2019. To read the full working paper, please click [here](#).

The second working paper titled "Liquidity Shocks and Overnight Interest Rates in Emerging Markets: Evidence from GARCH Models for India" authored by Bhupal Singh examines the role of key frictional and structural liquidity shocks in shaping the movement in call money rates and the pattern of volatility. To read the full working paper, please click [here](#).