

# MONETARY & CREDIT INFORMATION REVIEW



# MCIR

Volume XV Issue 9 | March 2020



## I. Monetary Policy

### Seventh Bi-monthly Monetary Policy : Governor's Statement



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In view of the COVID-19 pandemic, the Monetary Policy Committee (MPC) advanced its meeting scheduled for March 31, 2020, April 01 and 03, 2020 to March 24, 26 and 27, 2020. The MPC undertook a careful evaluation of the current and evolving macroeconomic and financial conditions and the economic outlook.

After extensive discussions, the MPC voted unanimously for a sizeable reduction in the policy repo rate and for maintaining the accommodative stance of monetary policy as long as necessary to revive growth, mitigate the impact of COVID-19, while ensuring that inflation remains within the target. While there were some differences in the quantum of reduction, the MPC voted with a 4-2 majority to reduce the policy rate by 75 basis points to 4.4 per cent.

Simultaneously, the fixed rate reverse repo rate, which sets the floor of the liquidity adjustment facility (LAF) corridor, was reduced by 90 basis points to 4.0 per cent, thus creating an asymmetrical corridor. The purpose of this measure is to make it relatively unattractive for banks to passively deposit funds with the Reserve Bank and instead use these funds for on-lending to productive sectors of the economy. It may be recalled that during the month of March 2020 so far, banks have been parking close to ₹ 3 lakh crore on a daily average basis under the reverse repo, even as the growth of bank credit has been steadily slowing down.

This decision and its advancement has been warranted by the destructive force of the corona virus. It is intended to (a) mitigate the negative effects of the virus; (b) revive growth; and above all, (c) preserve financial stability.

#### Liquidity Measures

##### i) Targeted Long Term Repos Operations

In order to mitigate the adverse effects of COVID-19 on economic activity, leading to pressures on cash flows, the Reserve Bank decided to conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to ₹ 1,00,000 crore at a floating rate linked to the policy repo rate.

##### ii) Cash Reserve Ratio

As a one-time measure to help banks tide over the disruption caused by COVID-19, the Reserve Bank 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.

##### iii) Marginal Standing Facility

In view of the exceptionally high volatility in domestic financial markets, the Reserve Bank decided to increase the Marginal Standing Facility (MSF) limit of 2 per cent to 3 per cent with immediate effect applicable up to June 30, 2020.

##### iv) Widening of the Monetary Policy Rate Corridor

In view of persistent excess liquidity, the Reserve Bank decided to widen the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under LAF would be 40 bps lower than the policy repo rate. The MSF rate would continue to be 25 bps above the policy repo rate.



#### 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 March 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

## Developmental and Regulatory Measures

### i) Moratorium on Term Loans

All commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and Non-Banking Financial Companies, (including housing finance companies and micro-finance institutions) are permitted to allow a moratorium of three months on payment of installments in respect of all term loans outstanding as on March 01, 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 being permitted to allow a deferment of three months on payment of interest in respect of all such facilities outstanding as on March 01, 2020. The accumulated interest for the period will be paid after the expiry of the deferment period.

### iii) Easing of Working Capital Financing

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. Such changes in credit terms permitted to the borrowers to specifically tide over the economic fallout from COVID-19 will not result in asset classification downgrade.

### iv) Deferment of Implementation of Net Stable Funding Ratio

The Reserve Bank decided to defer the implementation of Net Stable Funding Ratio (NSFR) by six months from April 01, 2020 to October 01, 2020.

### v) Capital Conservation Buffer

Considering the potential stress on account of COVID-19, the Reserve Bank decided to further defer the implementation of the last tranche of 0.625 per cent of the CCB from March 31, 2020 to September 30, 2020.

### vi) Offshore Non-Deliverable Rupee Derivative Markets

The Reserve Bank, in consultation with the Government, permitted banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the Non-Deliverable Rupee Derivative Markets with effect from June 01, 2020. To read more, please click [here](#).

## II. Regulation

### Merger of Public Sector Banks

The Reserve Bank on March 28, 2020 notified that:

□ Further to the amalgamation of Allahabad Bank into Indian Bank Scheme, 2020 dated March 04, 2020, issued by the Government of India, all branches of Allahabad Bank will function as branches of Indian Bank from April 01, 2020.

□ Further to the amalgamation of Andhra Bank and

Corporation Bank into Union Bank of India Scheme, 2020 dated March 04, 2020, issued by the Government of India, all branches of Andhra Bank and Corporation Bank will function as branches of Union Bank of India from April 01, 2020.

□ Further to the amalgamation of Oriental Bank of Commerce and United Bank of India into Punjab National Bank Scheme, 2020 dated March 04, 2020, issued by the Government of India, all branches of Oriental Bank of Commerce and United Bank of India will function as branches of Punjab National Bank from April 01, 2020.

□ Further to the amalgamation of Syndicate Bank into Canara Bank Scheme, 2020 dated March 04, 2020, issued by the Government of India, all branches of Syndicate Bank will function as branches of Canara Bank from April 01, 2020.

## COVID – 19: Regulatory Package

The Reserve Bank put in place certain regulatory measures to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic:

### i) Rescheduling of Payments

In respect of all term loans, all commercial banks, co-operative banks, All-India Financial Institutions, and Non-Banking Financial Companies are permitted to grant a moratorium of three months on payment of all instalments falling due between March 01, 2020 and May 31, 2020.

### ii) Easing of Working Capital Financing

In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may recalculate the 'drawing power' by reducing the margins and/or by reassessing the working capital cycle. Other measures pertain to classification as Special Mention Account and Non-Performing Asset, asset classification of term loans, rescheduling of term loans including interest and board approved policies for providing the relief measures. To read more, click [here](#).

## Large Exposures Framework

The Reserve Bank on March 23, 2020 in response to queries raised by banks on whether the guidelines on large exposures will apply to exposures to a person resident outside India, clarified that the clause will also apply to non-fund based credit facilities provided to a person resident outside India. To read more, please click [here](#).

## Licensing of Small Finance Banks

The Reserve Bank, with the objective to harmonise the instructions for existing Small Finance Banks (SFBs) with SFBs to be licensed under 'Guidelines for

'on-tap' Licensing' decided to:

- ❑ Grant general permission to all existing SFBs to open banking outlets subject to adherence to 'Unbanked Rural Centre' norms of the RBI;
- ❑ Exempt all existing SFBs from seeking prior approval of the Reserve Bank for undertaking such non-risk sharing simple financial service activities, which do not require any commitment of own fund, after three years of commencement of business of SFB. The Reserve Bank also issued clarifications for existing SFBs. To read more, please click [here](#).

## Exposure to Single and Group Borrowers/Parties and Large Exposures

The Reserve Bank on March 13, 2020 finalised the guidelines on limits on exposure to single and group borrowers/parties and large exposures and revised the target for priority sector lending for Urban Cooperative Banks. The guidelines were finalised after taking into consideration comments from the stakeholders. To read the detailed guidelines, please click [here](#).

## Implementation of IndAS

The Reserve Bank, with the objective to promote high quality consistent implementation and facilitate comparison and better supervision, placed on its website, the draft regulatory guidance on Indian Accounting Standards (IndAS) on March 13, 2020. The regulatory guidance will be applicable on IndAS implementing Non-Banking Financial Companies and Asset Reconstruction Companies (ARCs) for preparation of their financial statements from Financial Year 2019-20 onwards. To read more, please click [here](#).

## Operational and Business Continuity Measures

The Reserve Bank on March 16, 2020 advised banks/financial institutions to take the following steps to ensure operational and business continuity amidst the COVID-19 pandemic:

- ❑ Devise a strategy and monitoring mechanism concerning the spread of the disease within the organisation and ensure timely intervention for preventing further spread, in case of detection of infected employees. This includes travel plans and quarantine requirements as well as avoiding spread of panic among staff and members of the public;
- ❑ Take stock of critical processes and revisiting Business Continuity Plan (BCP) in the emerging situations/scenarios with the aim of continuity in critical interfaces and preventing any disruption of services, due to absenteeism either driven by the individual cases of infections or preventive measures;

- ❑ Take steps to share important instructions/strategy with the staff members at all levels for soliciting better response and participation and sensitise them about preventive measures/steps to be taken in suspected cases, based on instructions received from health authorities, from time-to-time;
- ❑ Encourage customers to use digital banking facilities as far as possible.
- ❑ Besides taking these steps for ensuring business process resilience, supervised entities of the Reserve Bank have been advised to assess the impact of COVID-19 pandemic on their balance sheet, asset quality and liquidity arising out of potential scenarios such as further spread of the pandemic in India and its effect on the economy. They have also been asked to study the contagion effect on wider disruption in the global economy and the global financial system.

To read more, please click [here](#).

## Basel III Capital Regulations

The Reserve Bank on March 27, 2020 deferred the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from March 31, 2020 to September 30, 2020. Accordingly, minimum capital conservation ratios as mentioned in the [Master Circular on Basel III Capital Regulations](#), as applicable from March 31, 2018 will also apply for a further period of six months from March 31, 2020 till the CCB attains the level of 2.5 per cent on September 30, 2020. Further, the pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments shall remain at 5.5 per cent of Risk Weighted Assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020. New Capital Adequacy Framework (NCAF) may, however, be referred to during the Basel III transition period for regulatory adjustments/deductions up to March 31, 2017. To read more, please click [here](#).

## III. Financial Markets Regulation

### FAR for Investment by Non-residents

The Reserve Bank, in consultation with the Government of India, introduced a separate channel, called the 'Fully Accessible Route' (FAR), to enable non-residents to invest in specified Government of India dated securities on March 30, 2020. Eligible investors can invest in specified Government securities without being subject to any investment ceilings. This scheme shall operate along with the two existing routes, viz., the Medium Term Framework (MTF) and the Voluntary Retention Route (VRR). To read more, please click [here](#).

## IV. Foreign Exchange Management

### FPIs – Investment Limits

The Reserve Bank on March 30, 2020 increased the Foreign Portfolio Investment (FPI) limit in corporate bonds to 15 per cent of outstanding stock for FY 2020-21. The revised limits for FPI investment in Central Government securities (G-secs) and State Development Loans (SDLs) for Financial Year 2020-21 will be advised separately. The current limits shall continue to be applicable until the revised limits are notified. To read more, please click [here](#).

## V. Banker to Government

### Central Government Transactions

The Reserve Bank on March 17, 2020, advised receiving branches including those not situated locally, to adopt special arrangements such as courier service for passing on challans/scrolls to the Nodal/Focal Point branches so that all payments and collections made on behalf of the Government towards the end of March are accounted for in the same financial year. The banks were advised in view of the Government of India's decision to fix April 10, 2020 as the date of closure of residual transactions for the month of March 2020, for Financial Year 2019-20. To read more, click [here](#).

### Special Clearing Operations

The Reserve Bank on March 31, 2020 conducted special clearing operations exclusively for Government cheques for the current financial year at all clearing houses across the country. Member banks were advised to keep their inward clearing processing infrastructure open during the special clearing hours and maintain sufficient balance in their clearing settlement account to meet settlement obligations arising out of the special clearing. To read more, please click [here](#).

### Special Measures for Annual Closing

The Reserve Bank, keeping in view the unprecedented situation across the country to tackle the Covid-19 situation, put in place the following special measures for reporting and accounting of Government transactions:

- ❑ All agency banks were advised to keep their designated branches open for over the counter transactions related to Government transactions upto the normal working hours on March 31, 2020.
- ❑ Government transactions through Real Time Gross Settlement (RTGS) System were operated for extended

extended time on March 31, 2020. Transactions through National Electronic Funds Transfer (NEFT) were continued upto 2400 hours on March 31, 2020.

❑ Special clearing was conducted for collection of Government cheques on March 31, 2020.

❑ The reporting window on March 31, 2020 was extended and kept open till 1200 hours on April 01, 2020 for reporting of Central and State Government transactions to RBI, including uploading of GST/e-receipts luggage files.

❑ Agency banks were advised to give adequate publicity to the special arrangements made as above.

To read more, please click [here](#).

## VI. Payment and Settlement Systems

### Payment Aggregators and Gateways

The Reserve Bank on March 17, 2020 decided to regulate in entirety the activities of Payment Aggregators and provide baseline technology-related recommendations as per the detailed guidelines under Section 18 of the Payment and Settlement Systems Act, 2007. The guidelines shall come into effect from April 01, 2020. The detailed guidelines and technology-related recommendations can be read by clicking [here](#).

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