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MCIR

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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 April 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

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Editor

Governor announces Liquidity and Regulatory Measures

In view of the COVID-19 pandemic, Shri Shaktikanta Das, Governor, Reserve Bank of India made a televised statement to the nation on April 17, 2020. He announced several additional measures aimed at maintaining adequate liquidity in the system and its constituents in the face of COVID-19 related dislocations; facilitating and incentivising bank credit flows; easing financial stress and enabling markets to function normally. The highlights of the announcement are:

Liquidity Measures

i) Liquidity Management

The Governor said that the Reserve Bank would conduct targeted long-term repo operations (TLTRO 2.0) for an aggregate amount of ₹50,000 crore in tranches of appropriate sizes. The second iteration of the Targeted Long Term Repo Operations (TLTRO) window will exclusively lend to Non-Banking Financial Companies (NBFCs), to the tune of ₹50,000 crore, with a similar amount going toward refinancing NHB, SIDBI and NABARD. The announcement was made, given the severe impact created by the COVID-19 pandemic on access to liquidity for small and mid-sized corporates, including NBFCs and micro finance institutions (MFIs).

ii) Refinancing Facilities for All India Financial Institutions

Shri Das announced that a new liquidity push aggregating to ₹1 lakh crore of funding has been targeted at NBFCs through lending to the All India Financial Institutions (AIFIs) with the objective to facilitate flow of credit to the needy institutions down in the pecking order in view of the difficulties faced by All India Financial Institutions such as the NABARD, the SIDBI and NHB in raising resources from the market due to tightening of financial conditions. Accordingly, it was decided to provide special refinance facilities for a total amount of ₹50,000 crore to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs.

iii) Liquidity Adjustment Facility: Fixed Rate Reverse Repo Rate

The Governor said that with a view to encouraging banks to deploy the surplus funds in investments and loans in productive sectors of the economy, the fixed rate reverse repo rate under the liquidity adjustment facility (LAF) was reduced 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.

iv) Ways and Means Advances for States

To provide greater comfort to the states to undertake COVID-19 containment and mitigation efforts and enable them to better plan their market borrowings, the Reserve Bank has also decided to increase the Ways and Means Advances (WMA) limit of the states by 60 per cent over and above the present level. This facility will be available till September 30, 2020.

Regulatory Measures

i) Asset Classification

The Reserve Bank allowed banks to delay the classification of stressed borrowers as defaulters in respect of moratorium accounts which were standard as on March 01, 2020. The NPA norms shall exclude the moratorium period. There would be classification standstill for all such accounts from March 01, 2020 to May 31, 2020. NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

ii) Extension of Resolution Timeline

Recognising the challenges to resolution of stressed assets in the current volatile environment, the Reserve Bank decided to extend the resolution timeline of stressed assets as per its prudential framework by 90 days.

iii) Dividend Distribution

In view of the COVID-19 related economic shock, the Reserve Bank advised scheduled commercial banks and cooperative banks not make any further dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further instructions.

iv) Liquidity Coverage Ratio

In order to ease the liquidity position at the level of individual institutions, the liquidity coverage ratio (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 in two phases: 90 per cent by October 01, 2020 and 100 per cent by April 01, 2021.

v) NBFC Loans to Commercial Real Estate Projects

The Reserve Bank allowed Non-Banking Financial Companies (NBFCs) to extend the treatment of date for commencement by an additional one year for commercial operations in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters.

To read the full statement of the Governor, please click here.

II. Regulation

COVID-19 Regulatory Package

A. Review of Resolution Timelines

The Reserve Bank on April 17, 2020 decided that:

i) Lenders are required to implement a resolution plan in respect of entities in default within 180 days from the end of review period of 30 days. In respect of accounts which were within the review period as on March 01, 2020, the period from March 01, 2020 to May 31, 2020 shall be excluded from the calculation of the 30-day timeline for the review period and the residual review period shall resume from June 01, 2020. Upon expiry of this, lenders shall have the usual 180 days for resolution.

ii) The timeline for resolution shall get extended by 90 days from the date on which the 180-day period was originally set to expire in case of accounts where the review period was over, but the 180-day resolution period had not expired as on March 01, 2020.

iii) The requirement of making additional provisions specified as per the prudential framework shall be triggered as and when the extended resolution period expires.

iv) The lending institutions shall make relevant disclosures in respect of accounts where the resolution period was extended in the 'Notes to Accounts' while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years FY 2020 and FY 2021.

v) In respect of all other accounts, the provisions of the prudential framework shall be in force without any modifications. To read more, please click here.

B. Asset Classification and Provisioning

i) The Reserve Bank on April 17, 2020 permitted lending institutions to grant a moratorium of three months on payment of all term loan instalments falling due between March 01, 2020 and May 31, 2020.

ii) In respect of working capital facilities sanctioned in the form of cash credit/overdraft the regulatory package permitted the recovery of interest applied during the period from March 01, 2020 upto May 31, 2020 to be deferred.

iii) NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall, as hitherto, continue to be guided by the guidelines duly approved by their Boards and as per Institute of Chartered Accountants of India advisories for recognition of the impairments.

iv) In respect of accounts in default but standard where provisions and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters. To read more, please click here.

LCR under Basel III Framework

The Reserve Bank on April 17, 2020 advised banks to maintain LCR of 100 per cent with effect from January 01, 2019, with a view to accommodate the burden on banks' cash flows due to the Covid19 pandemic as under:

From date of circular to September 30	80 per cent
Oct 01, 2020 to March 31, 2021	90 per cent
April 01, 2021 onwards	100 per cent

To read more, please click here.

Declaration of Dividends by Banks

The Reserve Bank on April 17, 2020 directed all commercial and cooperative banks to not make any further dividend pay-outs from the profits pertaining to the financial year ended March 31, 2020. The direction was issued with the objective to ensure capital conservation and retaining the capacity of loss absorpbtion in an environment of heightened uncertainty caused by COVID-19. The restriction shall be reassessed by the Reserve Bank based on the financial results of banks for the quarter ending September 30, 2020. To read more, please click here.

Countercyclical Capital Buffer

The Reserve Bank on April 01, 2020 advised that activation of Countercyclical Capital Buffer (CCyB) is not necessary for a period of one year or earlier, as may be necessary. The framework on CCyB was put in place by the Reserve Bank in terms of guidelines issued on February 05, 2015 wherein it was advised that the CCyB would be activated as and when the circumstances warranted, and that the decision would normally be pre-announced. The CCyB framework envisages the credit-to-GDP gap as the main indicator, which is used in conjunction with other supplementary indicators. To read more, please click here.

Electronic Cards for Overdraft Accounts

The Reserve Bank on April 23, 2020 permitted banks to issue electronic cards to natural persons having overdraft accounts that are only in the nature of personal loan without any specific end-use restrictions. The card shall be issued for a period not exceeding the validity of the facility and shall also be subject to the usual rights of the banks as lenders. The electronic card for overdraft accounts in the nature of personal loans shall be allowed to be used for domestic transactions only. To read more, please click here.

III. Financial Markets Operations

SLF for Mutual Funds

The Reserve Bank on April 27, 2020 opened a special liquidity facility (SLF-MF) for mutual funds to the tune of ₹50,000 crore:

i) Under the SLF-MF, the Reserve Bank shall conduct repo operations of 90 days tenor at the fixed repo rate.

ii) Funds availed under the SLF-MF shall be used by banks exclusively for meeting the liquidity requirements of MFs by extending loans and undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial papers (CPs), debentures and Certificates of Deposit (CDs) held by MFs.

iii) Liquidity support availed under the SLF-MF would be eligible to 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. To read more, please click here.

The regulatory benefits under the scheme were also extended to banks on April 30, 2020 irrespective of whether they avail funding from the Reserve Bank or deploy their own resources under the scheme. Banks meeting the liquidity requirements of mutual funds by extending loans, undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial papers, debentures and certificates of deposit held by MFs will be eligible to claim all the regulatory benefits under SLF-MF scheme. To read more, please click here.

TLTRO 2.0

The Reserve Bank on April 23, 2020 conducted Targeted Long-term Repo Operations (TLTRO) 2.0 at the policy repo rate for tenors up to three years for a total amount of up to ₹50,000 crore. The objective was to facilitate conducive financial conditions and normal functioning of financial markets and institutions by providing adequate system level liquidity as well as targeted liquidity provision to sectors and entities experiencing liquidity constraints and/or hindrances to market access. The funds availed under TLTRO 2.0 shall be deployed in investment grade bonds, commercial paper (CPs) and non-convertible debentures (NCDs) of NBFCs. Exposures under this facility will not be reckoned under the Large Exposure Framework (LEF). To read more, please click here.

Truncated Market Timings Extended

The Reserve Bank on April 03, 2020 revised the trading hours for various markets regulated by the Reserve Bank in view of the unprecedented situation created by the COVID-19 pandemic outbreak with the objective to minimise the risks arising out of thinning out of activity due to lack of staff and IT resources. The revised timings were with effect from April 07, 2020 until further notice. To read more, please click here.

IV. Banker to Government

Availing of Overdraft Facilities

The Reserve Bank on April 07, 2020 decided to increase the number of days for which a State/Union Territory (UT) can be in overdraft continuously to 21 working days from the current stipulation of 14 working days and the number of days for which a State/UT can be in overdraft in a quarter has been increased to 50 working days from the current stipulation of 36 working days. The arrangement is valid till September 30, 2020. To read more, please click here.

Sovereign Gold Bond Scheme

The Reserve Bank on April 13, 2020 issued consolidated procedural guidelines on Sovereign Gold Bond (SGB) Scheme with a view to facilitate availability of all the current operative instructions at one place to the receiving offices, BSE/NSE, depositories and depository participants. The receiving offices shall be guided by these instructions while dealing with servicing of these bonds. To read the instructions, please click here.

V. Foreign Exchange Management

Hedging of Foreign Exchange Risk

In order to ease access to the domestic foreign exchange derivative markets, the Reserve Bank on April 07, 2020 finalised the directions on Risk Management and Interbank Dealings-Hedging of Foreign Exchange Risk. The salient features of the directions are as follows:

i)Merging of facilities for residents and non-residents into a single unified facility for all users;

ii)Users are now permitted to take valid exposures and hedge the same by using any available instrument;

iii)Facility to hedge anticipated exposures has been introduced;

iv)Simplified procedures for authorised dealers to offer foreign exchange derivatives.

The directions were finalised after taking into consideration public comments and the recommendations of the Task Force on Offshore Rupee Markets. To read the detailed directions, please click here.

VI. Monetary Policy

Minutes of the MPC Meeting

The Reserve Bank on April 13, 2020 placed in the public domain the minutes of the 22nd meeting of the Monetary Policy Committee (MPC), held during March 24, 26 and 27, 2020.

All members voted for a reduction in the policy repo rate and maintaining 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. Dr. Ravindra H. Dholakia, Dr. Janak Raj, Dr. Michael Debabrata Patra and Shri Shaktikanta Das voted for a 75 bps reduction in the policy repo rate. Dr. Chetan Ghate and Dr. Pami Dua voted for a 50 bps reduction in policy repo rate. To read the full minutes, please click here.

RBI releases the Monetary Policy Report for April 2020

The Reserve Bank on April 09, 2020 released the bi-annual report 'Monetary Policy Report, (MPR) April 2020'. The highlights of the MPR are:

i) Macroeconomic Outlook

Financial markets across the world are experiencing volatility; global commodity prices especially of crude oil, have declined sharply. COVID-19 would impact economic activity in India directly due to lockdowns, and through second round effects operating through global trade and growth. The impact of COVID-19 on inflation is ambiguous, with a possible decline in food prices likely to be offset by potential cost-push increases in prices of non-food items due to supply disruptions.

ii) Prices and Costs

Consumer price inflation surged between October 2019 and January 2020 propelled by a vegetable price spike, particularly of onions and breached the upper tolerance threshold in December before moderating in February. Fuel prices emerged out of deflation in December. After touching a historic low in October, inflation in consumer price inflation (CPI) excluding food and fuel edged up due to cost-push factors.

iii) Demand and Output

The deterioration in aggregate demand conditions in 2019-20, was exacerbated by contraction in investment, and moderation in Government expenditure in H2. On the supply side, agriculture and allied activities accelerated, buoyed by the late surge in south-west monsoon rainfall and bountiful north-east monsoon precipitation. However, industrial growth decelerated, led by a slowdown in manufacturing activity.

iv) Financial Markets and Liquidity Conditions

Domestic financial markets were overwhelmingly influenced by evolving domestic and global developments and the outbreak of COVID-19 in India in end-January 2020. Markets witnessed heightened volatility beginning February, culminating into a state of seizure in March with a sharp shrinkage in trading activity. Search for safe haven assets and flight to safety resulted in large scale capital outflows which sent equity markets into a tailspin and exerted sharp depreciation pressure on the Indian Rupee.

v) External Environment

Economic activity remained subdued across major advanced economies (AEs) and emerging market economies (EMEs). Monetary policy has remained highly accommodative as most central banks across the world resorted to massive easing through both conventional and unconventional measures. To read the full report please click here.

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