

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures to improve the functioning of markets and market participants; measures to support exports and imports; efforts to further ease financial stress caused by COVID-19 disruptions by providing relief on debt servicing and improving access to working capital; and steps to ease financial constraints faced by state governments.

I. Measures to Improve the Functioning of Markets

These measures are intended to ease constraints on market participants and channel liquidity to various sectors of the economy that are impacted by COVID-19 related dislocations.

1. Refinancing Facility for Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI) plays an important role in meeting the long-term funding requirements of small industries. In view of the tightening of financial conditions in the wake of the COVID-19 pandemic, and difficulties in raising resources from the market, the RBI had announced a special refinance facility of ₹15,000 crore to SIDBI for on-lending/refinancing. Advances under this facility were provided at the RBI's policy repo rate at the time of availment for a period of 90 days. In order to provide greater flexibility to SIDBI in its operations, it has been decided to roll over the facility at the end of the 90th day for another period of 90 days.

2. Investments by Foreign Portfolio Investors (FPIs) under the Voluntary Retention Route (VRR)

The regulatory framework for FPI investment in debt has evolved over the years in line with the policy objective of encouraging such flows within the prevailing macro-prudential framework. The Voluntary Retention Route (VRR) introduced in March

2019 facilitates long term and stable FPI investment in debt and offers operational flexibility in terms of instrument choices and exemptions from certain regulatory requirements. Since its introduction, the VRR scheme has evinced strong investor participation, with investments exceeding 90 per cent of the limits allotted under the scheme. In view of difficulties expressed by FPIs and their custodians on account of COVID-19 related disruptions in adhering to the condition that at least 75 per cent of allotted limits be invested within three months, it has been decided that an additional three months will be allowed to FPIs to fulfil this requirement. Detailed guidelines are being issued separately.

II. Measures to Support Exports and Imports

The deepening of the contraction in global activity and trade, which has become accentuated by the outbreak of COVID-19 and its rapid spread, has crippled external demand. In turn, this has impacted India's exports and imports both of which have contracted sharply in recent months. In view of the importance of exports in earning foreign exchange and in providing income and employment; and of imports in bringing in essential requirements of raw materials, intermediates, finished goods and technology, measures are being taken to support the foreign trade sector.

3. Export Credit

Exporters have been facing genuine difficulties such as delay/ postponement of orders and delay in realisation of bills, which are adversely affecting their production and realisation cycles. It is in this context that the RBI permitted an increase in the period of realization and repatriation of export proceeds to India from nine months to 15 months from the date of export in respect of exports made up to or on July 31, 2020. It has now been 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.

4. Liquidity Facility for Exim Bank of India

The Export-Import Bank of India provides financial assistance to exporters and importers with a view to promoting the country's international trade. In view of the COVID-19 pandemic, however, global trade has contracted sharply and global financial markets have turned highly volatile and risk averse, especially to EMEs. As Exim Bank predominantly relies on foreign currency resources raised from international financial markets for its operations, it is facing challenges to raise funds in international debt capital markets. Accordingly, it has been 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 availment 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.

5. Extension of Time for Payment for Imports

COVID-19 related disruptions to cross-border trade have imposed slowdown in manufacturing/sale of finished products, and delay in realisation of sale proceeds, both domestically and overseas. In turn, this has elongated the operating cycle for business entities. In this situation, units find it difficult to pay for their imports within the time stipulated under the Foreign Exchange Management Act (FEMA). At present, remittances for normal imports (excluding import of gold/diamonds and precious stones/jewellery) into India are required to be completed within a period of six months from the date of shipment by the overseas supplier, except in cases where amounts are withheld towards guarantee of performance. It has been decided to extend the time period for completion of remittances against normal imports into India (except in cases where amounts are withheld towards guarantee of performance) from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020. The measure will provide greater flexibility

to importers in managing their operating cycles in a COVID-19 environment.

III. Measures to Ease Financial Stress

The intensification of COVID-19 disruptions has imparted priority to relaxing repayment pressures and improving access to working capital by mitigating the burden of debt servicing, prevent the transmission of financial stress to the real economy, and ensure the continuity of viable businesses and households.

6. Moratorium on Term Loan Instalments

On March 27, 2020, the RBI permitted 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) (referred to hereafter as "lending institutions") to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020. In view of the extension of the lockdown and continuing disruptions on account of COVID-19, it has been decided to permit lending institutions to extend the moratorium on term loan instalments by another three months, *i.e.*, from June 1, 2020 to August 31, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by another three months.

7. 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 another three months, from June 1, 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 1, 2020.

8. 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 (up to August 31, 2020) into a funded interest term loan which shall be repayable not later than the end of the current financial year (i.e., March 31, 2021).

Lending institutions may, accordingly, put in place a Board approved policy to implement the measures announced in para 6, 7, 8.

9. Asset Classification

- (i) As the moratorium/deferment is being provided specifically to enable borrowers to tide over COVID-19 disruptions, the same will not be treated as changes in terms and conditions of loan agreements due to financial difficulty of the borrowers and, consequently, will not result in asset classification downgrade.
- (ii) As earlier, the rescheduling of payments on account of the moratorium/deferment will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions in pursuance of the announcements made today do not adversely impact the credit history of the borrowers.
- (iii) In respect of all accounts for which lending institutions decide to grant moratorium/deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall also exclude the extended moratorium/deferment period. Consequently, there would be an asset classification standstill for all such accounts during the moratorium/deferment period from

March 1, 2020 to August 31, 2020. Thereafter, the normal ageing norms shall apply.

- (iv) NBFCs, which are required to comply with Indian Accounting Standards (IndAS), may follow the guidelines duly approved by their Boards and advisories of the Institute of Chartered Accountants of India (ICAI) in recognition of impairments. Thus, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

10. Easing of Working Capital Financing

- (i) In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are permitted to recalculate the 'drawing power' by reducing the margins till the extended period, i.e., August 31, 2020. In order to smoothen the impact for the borrowers, lending institutions are permitted to restore the margins to the original levels by March 31, 2021.
- (ii) Further, lending institutions are permitted to reassess the working capital cycle of a borrowing entity up to an extended period till March 31, 2021. This will provide necessary leeway to the lenders to make an informed assessment about the impact of the pandemic on the entity concerned.
- (iii) Such changes in credit terms permitted to the borrowers to specifically tide over COVID-19's fallout will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 ('**Prudential Framework**'), and consequently, will not result in asset classification downgrade.

11. Extension of Resolution Timeline

Under the Prudential Framework, lending institutions are required to hold an additional provision of 20 per

cent in the case of large accounts under default if a resolution plan has not been implemented within 210 days from the date of such default. Given the continuing challenges to resolution of stressed assets, lending institutions are permitted to exclude the entire moratorium/deferment period from March 1, 2020 to August 31, 2020 from the calculation of 30-day Review Period or 180-day Resolution Period, if the Review/Resolution Period had not expired as on March 1, 2020.

12. Limit on Group Exposures under the Large Exposures Framework

Under the extant guidelines on the Large Exposures Framework, the exposure of a bank to a group of connected counterparties shall not be higher than 25 percent of the bank's eligible capital base at all times. On account of the COVID-19 pandemic, debt markets and other capital market segments are witnessing heightened uncertainty. As a result, many corporates are finding it difficult to raise funds from the capital market and are predominantly dependent on funding from banks. With a view to facilitating the flow of resources to corporates, it has been decided, as a one-time measure, to increase a bank's exposure to a group of connected counterparties from 25 per cent to 30 per cent of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021.

IV. Debt Management

13. Consolidated Sinking Fund (CSF) of State Governments - Relaxation of Guidelines

State Governments maintain a Consolidated Sinking Fund (CSF) with the Reserve Bank as a buffer for repayment of their liabilities. In the light of the Covid-19 pandemic and the consequent stress on State Government finances, the RBI has reviewed the Scheme and has decided to relax the rules governing withdrawal from the CSF, while at the same time ensuring that depletion of the Fund balance is done prudently. This will enable States to meet a larger proportion of their redemption of market borrowings falling due in the current financial year from the CSF. These relaxations to states will release an additional amount of about ₹13,300 crore. Together with the normally permissible withdrawal, this measure will enable the states to meet about 45 per cent of their redemptions due in 2020-21 through withdrawal from CSF. This change in withdrawal norms will come into force with immediate effect and will remain valid till March 31, 2021.

In response to COVID-19, the requirement of fiscal resources has increased with likely implications for market conditions going forward. The RBI shall remain watchful and support the smooth completion of the borrowing programme of the Centre and States in the least disruptive manner.