RBI Governor's Statement, April 17, 2020

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Objectives of the announcement

1. Maintain liquidity in the system
2. Facilitate and incentivise bank credit flows
3. Ease financial stress
4. Enable formal working of markets.

- **TLTRO of INR 50,000 crore to be conducted**: RBI will conduct a second targeted long-term repo operation (TLTRO 2.0) for an initial aggregate amount of INR 50,000 crore. The funds availed by banks should be invested in bonds, Commercial Papers (CPs), Non Convertible Debenture (NCD) of NBFCs with 50% of it going to small and mid-sized NBFCs and Micro Finance Institutions (MFIs) to be made within one month. This measure is likely to ease liquidity crunch faced by small and mid-sized NBFCs and MFIs.
- **Refinancing Measures of INR 50,000 crore to All India Financial Institutions (AIFIs) is announced**: RBI also announced refinancing measures to the tune of INR 50,000 crore for All India Financial Institutions (AIFIs) such as NABARD, SIDBI and National Housing Bank (NHB). This will comprise the following:

  (i) INR 25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs).

(ii) INR 15,000 crore to SIDBI for on-lending/refinancing.
(iii) INR 10,000 crore to NHB for supporting housing finance companies (HFCs).

- **Reverse Repo rate is reduced to 3.75% from 4.0%:** Because of government spending and various liquidity enhancing measures undertaken by RBI, the surplus liquidity in the banking system has increased substantially. To encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, RBI decided to reduce the reverse repo rate 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.
- **Ways and Means Advances for States**: On April 1, 2020 the RBI had announced an increase in the ways and means advances (WMA) limit of states by 30 per cent. It has now been decided to increase the WMA limit of states by 60 per cent over and above the level as on 31 March, 2020 to provide greater comfort to the states for undertaking COVID-19 containment and mitigation efforts, and to plan their market borrowing programmes better. The increased limit will be available till September 30, 2020.
- **The 90-day NPA norm shall exclude the moratorium period**: it has been decided that 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 an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. NBFCs, which are required to comply with Indian Accounting Standards (IndAS), may be guided by the guidelines duly approved by their boards and as per advisories of the Institute of Chartered Accountants of India 10 (ICAI) in recognition of impairments. In other words, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.[1]

[1] However, with the objective of ensuring that banks maintain sufficient buffers and remain adequately provisioned to meet future challenges, they will have to 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.

- **Extension of Resolution Timeline**: Under RBI's prudential framework of resolution of stressed assets dated June 7, 2019, in the case of large accounts under default, Scheduled Commercial Banks, AIFIs, NBFC-ND-SIs and NBFC-D are currently required to hold an additional provision of 20 per cent if a resolution plan has not been implemented within 210 days from the date of such default. Recognizing the challenges to resolution of stressed assets in the current volatile environment, it has been decided that the period for resolution plan shall be extended by 90 days. Details will be spelt out in the circular.
- **Distribution of Dividend**: Scheduled commercial banks and cooperative banks shall not make any further dividend payouts from profits pertaining to the financial year ended 31 March, 2020 until further instructions. This restriction shall be reviewed on the basis of the financial position of banks for the quarter ending 30September, 2020.
- **Liquidity Coverage Ratio (LCR)**: In order to ease the liquidity position at the level of individual institutions, the LCR requirement for Scheduled Commercial Banks is being brought down from 100 per cent to 80 per cent with immediate effect.[2] 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.
- **NBFC Loans to Commercial Real Estate Projects**: In terms of the extant guidelines for banks, the Date for Commencement for Commercial operations (DCCO) in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters can be extended by an additional one year, over and above the one-year extension permitted in normal course, without treating the same as restructuring. It has now been decided to extend a similar treatment to loans given by NBFCs to commercial real estate. This will provide relief to NBFCs as well as the real estate sector.

[2] LCR refers to the proportion of highly liquid assets held by a bank to ensure their ongoing ability to meet short-term obligations. Its relaxation will free up more capital for the banks to deploy in the market.