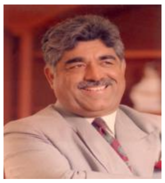
RBI Measures on 27 March 2020 to combat Covid-19 crisis



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1. **Reduction in Repo rate**: RBI reduces repo rate by 75 basis points from 5.15% to 4.40% on 27 March 2020 amid Covid-19 crisis.
2. **Widening of the Monetary Policy rate Corridor**: In view of persistent excess liquidity, it has been decided to widen the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 bps lower than the policy repo rate. The marginal standing facility (MSF) rate would continue to be 25 bps above the policy repo rate.
3. **Reduction in Cash Reserve Ratio (CRR)**: Reduce cash reserve ratio (CRR) to 3.0 % from 4.0%, which would release primary liquidity INR 137000 crore across the banking system and *this dispensation will be available for a period of one year ending on 26 March 2021*. RBI further decided to reduce the requirement of minimum daily CRR balance maintenance from *90 per cent to 80 per cent effective from the first day of the reporting fortnight beginning March 28, 2020*. This is a one-time dispensation available up to June 26, 2020 to reduce hardship of banks amid social distancing due to Covid-19 crisis.
4. **Targeted Long Term Repos Operations (TLTROs)**: In order to mitigate their adverse effects on economic activity leading to pressures on cash flows, it has been decided that the Reserve Bank will conduct auctions of *targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to INR 1,00,000 crore at a floating rate linked to the policy repo rate*. Liquidity

availed under the scheme by banks has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments *in these bonds as on March 27, 2020.*[1] *The first TLTRO auction will be held today (March 27,2020). Following a review of the outcome of this auction, the subsequent TLTRO auctions will be announced.*

5. **Increasing Borrowing limit under Marginal Standing Facility (MSF)**: RBI also has decided to increase the borrowing limit of banks under the Marginal Standing Facility Rate (MSF) to 3 per cent from earlier 2 per cent which will be applicable up to June 30, 2020. This is intended to provide comfort to the banking system by allowing it to avail an additional INR 1,37,000 crore of liquidity under the LAF window in times of stress.
6. **According to RBI, these measures will inject a total liquidity of INR 3.74 lakh crore to the system.**
7. **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 NBFCs (including housing finance companies and micro-finance institutions) ("lending institutions") are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by three months.
8. **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 1, 2020. The accumulated interest for the period will be paid after the expiry of the deferment period.

[1] Banks shall be required to acquire up to fifty per cent of their incremental holdings of eligible instruments from primary market issuances and the remaining fifty per cent from the secondary market, including from mutual funds and non-banking finance companies. Investments made by banks under this facility will 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. Exposures under this facility will also not be reckoned under the large exposure framework.

However, according to RBI, regarding 7 and 8, the moratorium/deferment is being provided specifically to enable the borrowers to tide over the economic fallout from COVID-19. Hence, the same will not be treated as change in terms and conditions of loan agreements due to financial difficulty of the borrowers and, consequently, will not result in asset classification downgrade. The lending institutions may accordingly put in place a Board approved policy in this regard.

9. **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 be treated as concessions granted due to financial difficulties of the borrower, and consequently, will not result in asset classification downgrade.

   According to RBI, with respect of 7, 8, 9, the rescheduling of payments 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 pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

10. **Deferment of Implementation of Net Stable Funding Ratio (NSFR):** As part of reforms undertaken in the years following the global financial crisis, the Basel Committee on Banking Supervision (BCBS) had introduced the Net Stable Funding Ratio (NSFR) which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year in order to mitigate the risk of future funding stress. As per the prescribed timeline, banks in India were required to maintain NSFR of 100 per cent from April 1, 2020. <u>It has now been decided to defer the implementation of NSFR by six months from April 1, 2020 to October 1, 2020.</u>

11. **Deferment of Last Tranche of Capital Conservation Buffer:** The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times (i.e., outside periods of stress) which can be drawn down as losses are incurred during a stressed period. Considering the potential stress on account of COVID-19, it has been 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.
12. **Permitting Banks to Deal in Offshore Non-deliverable Rupee derivative Markets (Offshore Rupee NDF Markets):** The offshore Indian Rupee (INR) derivative market - the Non-Deliverable Forward (NDF) market - has been growing rapidly in recent times; though at present, Indian banks are not permitted to participate in this market, (although the benefits of their participation in the NDF market have been substantial). The time is appropriate to improve effectiveness of price discovery. Therefore, RBI allowed Indian Banks which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from June 1, 2020.

Since the last MPC meeting of February 2020, the Reserve Bank has injected liquidity of INR 2.8 lakh crore through various instruments, equivalent to 1.4 per cent of India's GDP. Together with the measures announced today, RBI's liquidity injection works out to about 3.2 per cent of GDP.