

ANALYSIS OF RBI STATEMENT ON COVID 19 REGULATORY PACKAGES

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Through this write up efforts have been made to explain point wise much awaited steps taken by RBI to smooth the flow of credit and ease out the liquidity problem currently faced by business specially SMEs. This write is also useful for students from academic perspective as concept as well as terms of economics/Banking has been explained in easy language.

1. Targeted Long Term Repos Operations (TLTROs):

Concept/Background: In a first, RBI announced simultaneous sales & purchase of government bonds under the open market operations (OMO). This is on lines of “Operation Twist” that was last adopted by the US federal Reserve in 2013.

Term: OMO: Selling & purchasing of government securities by RBI

Concept: Operation Twist: Operation Twist is when the central bank uses the proceeds from sale of short term securities to buy long term government debt papers leading to easing of interest rates on the long term papers/securities.

Why RBI is doing this now? What is main idea behind this.

RBI has decided to conduct simultaneous purchase and sales of government securities under OMO for a total amount of up to Rs. 1 lakh crore. Through this Bank can take money from RBI at repo rate i.e. 4.40% only and use it for onward lending. It has to return this money only after 1 year or 3 year as the case may be. Till now Banks used to take deposits from customers or borrow at higher rates. Also the money borrowed from RBI was very little. But now since RBI is willing to provide Rs. 1 lakh Crores to banking system at 4.40% there is no reason why a Bank can not borrow from RBI at this rate and lend onwards to the final consumers. This will help boost the economy by making loans less expensive for those looking to buy homes, Cars and for business purpose/projects etc. Further RBI is keen that long term rates are brought down to kickstart investment and revive the economy.

2. Cash Reserve Ratio (CRR)

Term: CRR is the amount of funds that the Banks have to keep with the RBI. If the RBI decides to decrease the CRR, the available amount for lending with the Banks increases.

Why RBI is doing this now? What is main idea behind this.

RBI has 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).

This reduction in CRR would release liquidity of about Rs. 1.37 lakhs Crores in the Banking system.

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3. Marginal Standing Facility (MSF)

Term: MSF is the rate (4.65%) at which the Banks are able to borrow overnight funds from RBI against approved securities. Under the marginal standing facility (MSF), banks can borrow overnight at their discretion by dipping up to 2 per cent into the Statutory Liquidity Ratio (SLR).

Why RBI is doing this now? What is main idea behind this.

Rbi has increased the limit of 2 per cent to 3 per cent with immediate effect.. This will provide comfort to the banking system by allowing it to avail an additional Rs. 1.37 lakhs crore of liquidity

These three measures relating to TLTRO, CRR and MSF will inject a total liquidity of ` 3.74 lakh crore to the system.

4. Widening of the Monetary Policy Rate Corridor

This is the difference between Repo rate & Reverse Repo rate and Repo rate & MSF. Earlier it gap between Repo Vs Reverse Rep was 25 bps and difference between reverse Repo and MSF was 50 bps.

Why RBI is doing this now? What is main idea behind this.

Under the new corridor, the reverse repo rate (4%) would be 40 bps lower than the policy repo rate (4.40%). The marginal standing facility (MSF) rate would continue to be 25 bps above the policy repo rate (4.65%).

5. Moratorium on Term Loans

RBI has allowed a moratorium of three months on payment of installments 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.

Key Points:

- ✓ This is a deferment not waiver
- ✓ Individual banks will have to frame policies allowing relief to customers. Whether it will cover all customers or only customers that request for relief will be decided by individual banks.
- ✓ All EMI on term loans is covered. This will be applicable on all loans outstanding as on March 1, 2020.
- ✓ While credit cards are defined as revolving credit and not term loans, the RBI's operational guidelines made it clear that credit card dues are also covered.
- ✓ Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

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- ✓ The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.
- ✓ Instalments will include the following payments falling due from March 1, 2020 to May 31, 2020: (i) principal and/or interest components; (ii) bullet repayments; (iii) Equated Monthly installments; (iv) credit card dues.

6. Deferment of Interest on Working Capital Facilities

In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions are permitted to defer the recovery of interest applied in respect of all such facilities during the period from March 1, 2020 upto May 31, 2020 ("deferment"). The accumulated accrued interest shall be recovered immediately after the completion of this period.

7. 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.

General

Above treatment 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.

Since the moratorium/deferment/recalculation of the 'drawing power' is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower. Consequently, such a measure shall not result in asset classification downgrade.

The asset classification of term loans which are granted relief shall be determined on the basis of revised due dates and the revised repayment schedule.

Similarly, working capital facilities where relief is provided as above, the SMA and the out of order status shall be evaluated considering the application of accumulated interest immediately after the completion of the deferment.

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