Key Highlights of Reserve Bank of India

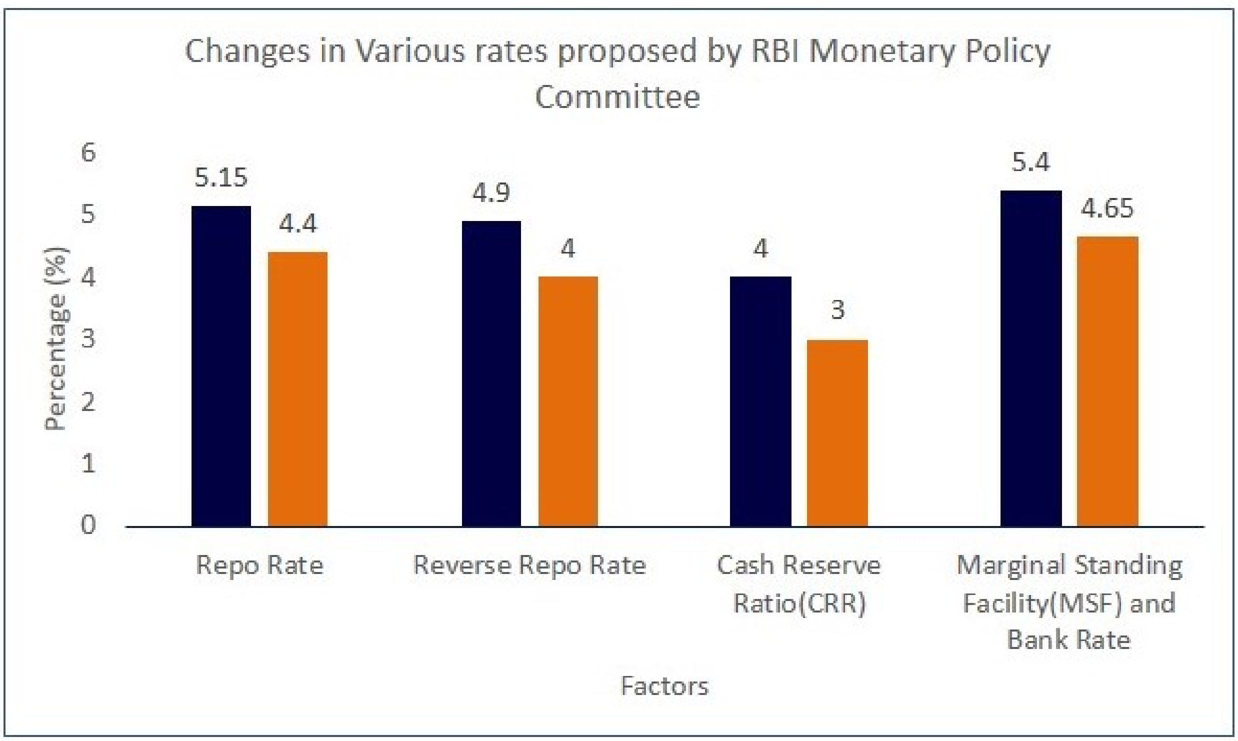
RBI vide Press release dated 27th March 2020 set out Statement on developmental and regulatory policies addressing stress in financial conditions, aimed at expanding liquidity in the system, reinforcing monetary transmission, easing financial stress and improving the functioning of markets on account of Covid-19 pandemic.

Accordingly, the Monetary Policy Committee (MPC) at its meeting today i.e. 27th March 2020 decided to:

- Reduce the policy repo rate by 75 basis points to 4.40% from 5.15% with immediate effect;
- Further, consequent upon the widening of the LAF corridor as detailed in the accompanying Statement on Developmental and Regulatory Polices, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0%;
- Reduce the CRR of all banks by 100 bps to 3.0% of net demand and time liabilities (NDTL) from 4.0% with effect from the reporting fortnight beginning 28th March 2020 for a period of one year ending on 26th March 2021;
- The marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.65% from 5.40%;
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of coronavirus (COVID-19) on the economy, while ensuring that inflation remains within the target.

These decisions are in consonance with the objective of achieving the medium-term targets for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Chart depicting the said changes is as under:



A brief summary of the decision taken under the same as under:

A. Liquidity Management

Targeted Long Term Repos Operations (TLTROs)

1. RBI will conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to Rs. 1000 billion at a floating rate linked to the policy repo rate;

2. 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;

3. Banks shall be required to acquire up to 50% of their incremental holdings of eligible instruments from primary market issuances and the remaining 50% from the secondary market, including from mutual funds and non-banking finance companies;

4. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25% 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;

5. The first TLTRO auction will be held today i.e. 27th March 2020. Following a review of the outcome of this auction, the subsequent TLTRO auctions will be announced.

Cash Reserve Ratio (CRR) (Will release primary liquidity of about Rs. 1370 billion)

1. One time measure to reduce the CRR of all banks by 100 basis points to 3.0% of net demand and time liabilities (NDTL) from 4.0% with effect from the reporting fortnight beginning 28th March 2020. This dispensation will be available for a period of one year ending on 26th March 2021;

2. Reduce the requirement of minimum daily CRR balance maintenance to 80% from 90% effective from the first day of the reporting fortnight beginning 28th March 2020. This is a one-time dispensation available up to 26th June 2020.

Marginal Standing Facility (MSF) (Provide additional Rs. 1370 billion of liquidity under LAF window)

1. To increase the limit of MSF to 3% from 2% of SLR with immediate effect to widen the existing policy rate corridor from 50 bps to 65 bps. This measure will be applicable up to 30th June 2020.

Widening of the Monetary Policy Rate Corridor

1. To widen the existing policy rate corridor from 50 bps to 65 bps;

2. The reverse repo rate under the liquidity adjustment facility (LAF) would be 40 bps lower than the policy repo rate as against 65 bps earlier;

3. The MSF rate would continue to be 25 bps above the policy repo rate.

B. REGULATION AND SUPERVISION

Moratorium on Term Loan (The same is not mandatory)

1. 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) (hereinafter referred as “Lending institutions”) are being permitted to allow a moratorium of 3 months (this is not a waiver) on payment of instalments in respect of all term loans outstanding as on 01st March 2020;

2. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by 3 months;

3. RBI further clarified that financial institutions can allow 3 month moratorium on repayment of credit card dues for instalments falling due from March 1, 2020 to May 31, 2020.

Deferment of Interest on Working Capital facilities

1. Lending institutions are being permitted to allow a deferment of 3 months on payment of interest in respect of all such facilities outstanding as on 01st March 2020;

2. The accumulated interest for the period will be paid after the expiry of the deferment period;

3. 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.

Easing of Working Capital Financing

1. Lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers;

2. 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.

Defer Net Stable Funding Ratio (NSFR)

1. Defer the implementation of NSFR by 6 months from 01st April 2020 to 01st October 2020

Deferment of Last Tranche of Capital Conversation Buffer (CCB)

1. To defer the implementation of the last tranche of 0.625% of the CCB from 31st March 2020 to 30th September 2020;

2. Consequently, the pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.5 % of risk-weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on 30th September 2020.

C. FINANCIAL MARKETS

Permitting Banks to Deal in Offshore NDF Rupee Market

1. To permit banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the Non-Deliverable Forward (NDF) market with effect from 01st June 2020.