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Special RBI Briefing

- 05th May 2021

"Focusing on light in the darkest moments"

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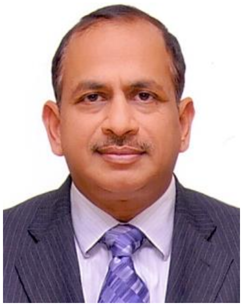
Summarizing the key takeaways

The RBI Governor's unscheduled speech today on 05th May 2021 revolved around announcing of liquidity support to some of the sections of society from the healthcare industry to the small and MSME businesses.

Normal south-west monsoon predictions by IMD, April 2021 PMI at 55.5 and forex reserves at $588bn as of 30th April 2021 do add comfort in these trying times. However, with the relentless COVID-19 second wave disrupting the status quo, it was important for relief measures to be injected into the system. An on-tap liquidity support to fight COVID, along with rationalizing KYC norms in the short term are some of operational and procedural measures announced. Inflation could be a concern later, but today is not the time to devote to it.

#	Key measures announced
1	**Second purchase of Govt securities for aggregate amount of 35000cr on 20th May 2021**
⬆	This should continue to quell concerns over rising bond yields and bring the yield below the 6% threshold providing comfort to the bond market
2	**Ramping up of COVID related healthcare infrastructure with an on-tap liquidity window of INR 50,000 cr (up to 3 years tenor) at repo rate opened until 31st March 2022**
⬆	An imperative requirement that will enable much needed infrastructure addition. Moreover, the availability of liquidity to importers/suppliers will enable more procurement.
3	**3-year LTROs worth INR 10,000cr with limit of INR 10 lakh per borrower for SFB scheme. SFB on-lending to MFIs categorized as priority sector. SFBs allowed to on-lend to smaller MFIs of asset size up to INR 500cr - till 31 March 2022**
⬆	On-lending to smaller MFIs being categorized as priority sector lending will help SFBs lend to MFI's given, they are the best placed to understand the local small MFI markets in which they operate.
4	**Resolution framework 2.0 for covid related stressed assets** **For borrowers up to INR 25cr who have not availed restructuring earlier and classified 'standard' as of March 2021 - will be considered for restructuring till 30th Sept 2021** **For those who have availed Resolution Framework 1.0 with moratorium of less than 2 years and those who were restructured earlier - measures of extend moratorium period to up to 2 years and relief on working capital sanctions based on conditions**
⬆	RBI has gone with the industry demand to not go for a moratorium but for restructuring. Given the fragmented nature of the lockdown compared to the complete shutdown this looks to be a more targeted approach. But given the discretion provided to bank there is scope for inefficient implementation.
5	**Counter cyclical provisioning buffer held by banks as of December 2020 can be utilized to make provisions for NPAs up to March 2022 but after Board approvals**
⬌	While this is good for the books of accounts of the banks but does not have significant impact on the current state of stress in the system.
6	**Overdraft tenor for states increased to 50 days from current 36 days**
⬆	A fortnight worth of more liquidity would add to the state's resources
7	**Rationalizing KYC requirements including (1) extending scope of V-CIP for new categories of customers, (2) conversion of limited KYC accounts opened on basis of Aadhar e-KYC authentication in non face to face mode to fully compliant KYC and (3) no punitive impositions, unless warranted, on any due or pending periodic KYC requirements till 31st December 2021**
⬆	This reduces the burden on the society to get KYCs completed and helps push the digital agenda.



Ramesh Abhishek
Former Secretary DPIIT,
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In a bid to support businesses the RBI has re-opened one-time restructuring for individuals and MSMEs. This step will go a long way in ensuring liquidity and business continuity for individuals and businesses struggling with the impact of the second wave of COVID-19. Just as was needed in August last year, one-time relief restructuring for stressed firms has been the need of the hour, as various state-level lockdowns have disrupted businesses across sectors. By allowing the period of moratorium to be extended up to a total of 2 year will provide a fresh lease of life to MSME businesses amidst this unprecedented crisis.

The RBI increasing the overdraft duration for states for a maximum of 50 days, from the 36 days earlier, will provide much-needed financial support to state Governments as they battle the second wave of COVID-19. While states focus on containing the exponential spread of the virus, many have had to announce regional lockdowns, significantly impacting economic activity. Additionally, with resources directed towards health, states needed support to tide over the economic impact of the crisis.

RBI has been proactive and targeted in its action, be it supporting the COVID response by providing capital at low cost to key players like hospitals, vaccine manufacturers etc. by creating a new covid loan book facility or addressing the lockdown impact on MSME and individuals by taking multiple steps like allowing restructuring of loans including extension for loans less than Rs 25 Cr, SLTRO for SFBs, Review of working capital limits, Rationalization of KYC etc.

RBI has taken the right decision of not going for a blanket moratorium and used the restructuring route. IT will be critical how the banks and NBFCs utilize these facilities to keep the engines of India's growth running.

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