Deloitte.

Regulatory Update | Covid-19

Relaxations announced by Reserve Bank of India due to Covid-19 – Policy related changes

In light of the economic distress caused by the outbreak of Covid-19 pandemic, the Reserve Bank of India (RBI) has announced slew of measures to tackle the situation.

The measures announced by RBI aim to mitigate the burden on debt-servicing, improving access to working capital and to ease the burden on retail as well as institutional players in the Indian market.

The key policy related changes announced by RBI are summarized hereunder:

Policy related changes

1(a) **Reduction in Policy Repo Rate** - The Policy Repo Rate under the Liquidity Adjustment Facility (LAF) has been reduced to 4 percent

1(b) **Reduction in Marginal Standing Facility (MSF) Rate** - MSF Rate and the Bank Rate has been reduced to 4.25 percent. Further, it has been decided to raise the borrowing limit under the MSF scheme from 2 percent to 3 percent of the Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding fortnight with immediate effect. The enhanced limit will be applicable up to June 30, 2020.

1(c) **Reduction in the Reverse Repo Rate** - Reverse Repo Rate under the LAF reduced to 3.35 percent.

1(d) **Relaxation from maintaining LCR** – The requirement to maintain 100% Liquidity Coverage Ratio (LCR) has been reduced to 80% till September 2020 and 90% from October 2020 to March 2021.

2(a) **Targeted Long Term Repos Operations (TLTROs) -** RBI will conduct auctions of targeted term repos of up to 3 years 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.

2(b) **Cash Reserve Ratio** – RBI has reduced the Cash Reserve Ratio (CRR) of all banks by 100 basis points to 3.0 percent of net demand and time liabilities (NDTL) for a period of 1 year. This will release primary liquidity of about INR 1,37,000 crore across the banking system. Further, the requirement of minimum daily CRR balance maintenance has been reduced from 90 percent to 80 percent.

3. Widening of the Monetary Policy Rate Corridor - The Monetary Policy Rate has been increased 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.

©2020 Deloitte Touche Tohmatsu India LLP

4. **Moratorium on Term Loans -** All commercial banks, co-operative banks, all-India Financial Institutions, and NBFCs (including HFCs and MFIs) ("lending institutions") are permitted to allow a moratorium till 31 August 2020 on payment of instalments in respect of all term loans outstanding as on 1 March 2020.

5. **Deferment of Interest on Working Capital Facilities -** In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions have been permitted to allow a deferment on payment of interest till 31 August 2020 in respect of all such facilities outstanding as on 1 March 2020. The accumulated interest for the period will be paid after the expiry of the deferment period. This will not result in asset classification downgrade.

6. **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 till the extended period, i.e., 31 August 2020. Further, lending institutions are permitted to reassess the working capital cycle of a borrowing entity up to an extended period till 31 March 2021.

7. **Refinancing facility for certain AIFIs** - RBI has announced a special refinance facility of INR 50,000 crore for All India financial institutions (AIFIs) such as the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB). This will comprise INR 25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); INR 15,000 crore to SIDBI for on-lending/refinancing; and INR 10,000 crore to NHB for supporting housing finance companies (HFCs). Advances under this facility are provided at the RBI's policy repo rate at the time of availment for a period of 90 days. Further, RBI has rolled-over the above facility for SIDBI for another period of 90 days.

8. **Liquidity facility for Exim Bank of India –** RBI has extended a line of credit of INR 15,000 crore to the Exim Bank for a period of 90 days from the date of availment with rollover up to a maximum period of one year so as to enable it to avail a US dollar swap facility to meet its foreign exchange requirements.

9. **Deferment of Implementation of Net Stable Funding Ratio (NSFR) -** 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 percent from 1 April 2020. RBI has deferred the implementation of NSFR by 6 months to 1 October 2020.

10. **Deferment of last tranche of Capital Conservation Buffer (CCB) -** The CCB, which is formulated 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. As per Basel standards, CCB was to be implemented in tranches of 0.625 percent and the transition to full CCB of 2.5 percent was set to be completed by

©2020 Deloitte Touche Tohmatsu India LLP

31 March 2019, which was subsequently deferred to 31 March 2020. RBI has deferred this further to 31 March 2020 to 30 September 2020. 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 per cent of risk-weighted assets (RWAs) and will rise to 6.125 percent of RWAs on 30 September 2020.

11. **Permission to Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets (Offshore NDF Rupee Market)** – RBI has permitted banks in India which operate in International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from 1 June 2020. Banks may participate through their branches in India, their foreign branches or through their IBUs.

12. **Special Liquidity Facility for Mutual Funds (SLF-MF) -** RBI has decided to open a special liquidity facility (MFs) for mutual funds for INR 50,000 crore.

13. **Deferment of implementation of Countercyclical Capital Buffer (CCyB) -** The framework on CCyB framework envisages the credit-to-GDP gap as the main indicator, which is used in conjunction with other supplementary indicators. RBI has decided to defer activating CCyB by 1 year or earlier, as may be necessary.

14. **Relaxation in limits on Group Exposures –** RBI has allowed bank's to increase its exposure to a group of connected counterparties from 25 percent to 30 percent of the eligible capital base of the bank. The increased limit will be applicable up to 30 June 2021.

15. **Relaxation of withdrawal norms from Consolidated Sinking Fund (CSF) –** RBI has decided to relax the rules governing withdrawal from CSF (maintained by State Government with RBI) till 31 March 2021.

16. **Relief in respect of CRE loans by NBFC -** Loans by NBFCs to delayed Commercial Real Estate Projects (CRE) can be extended by a year without restructuring.

17. **Asset classification benefit extended by RBI – '**90-day NPA norms' shall not apply on standard accounts and there will be a standstill on asset classification of such standard accounts during moratorium period. However, lending institutions shall make provisions of not less than 10 percent of the total outstanding of such accounts to be equally phased for quarter ending 31 March 2020 and 30 June 2020. Relevant disclosures will have to be made in respect to the provisioning and amount where asset classification benefits is extended by lending institutions in accounts.

Conclusion:

The measures announced by RBI will help improve functioning of the markets and market participants, provide much needed relief to borrowers in times of distress and ease financial stress caused by Covid-19 disruptions by providing relief on debt servicing and improving access to working capital etc.

©2020 Deloitte Touche Tohmatsu India LLP

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see **www.deloitte.com/about** for a more detailed description of DTTL and its member firms.

This material and the information contained herein prepared by Deloitte Touche Tohmatsu India LLP (DTTI LLP) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This material contains information sourced from third party sites (external sites).

DTTI LLP is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such external sites. None of DTTI LLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this material, rendering professional advice or services. This information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.

©2020 Deloitte Touche Tohmatsu India LLP. Member of Deloitte Touche Tohmatsu Limited