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RBI announced second set of measures to preserve financial stability and help put money in the hands of the needy and disadvantaged

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"…In the midst of death life persists, in the midst of untruth truth persists, in the midst of darkness light persists." – Mahatma Gandhi, during his famous Kingsley Hall, London address in October 1931.

It is with these words that the Governor of the Reserve Bank of India Shaktikanta Das began his statement, wherein he announced a set of nine measures to revive the struggling domestic economy. This follows the earlier set of measures announced by RBI on March 27, 2020. Making the announcements through an online address, the Governor stated that the human spirit is ignited by the resolve to overcome the COVID-19 pandemic which has "gripped the world in its deadly embrace".

The RBI Governor said that the additional measures are aimed to:

- maintain adequate liquidity in the system and its constituents in the face of COVID-19 related dislocations
- facilitate and incentivise bank credit flows
- ease financial stress, and
- enable the normal functioning of markets

The Governor said that the central bank will use all its instruments to address the daunting challenges posed by the epidemic. He said that the overarching objective is to help ensure that finance keeps flowing to all stakeholders, especially those that are disadvantaged and vulnerable. He expressed the hope that together, the nation will cure and endure the situation.

Here is an overview of the nine announcements made today. The full statement by the Governor can be read here.

Liquidity Management

1) Targeted Long-Term Operations (TLTRO) 2.0

A second set of targeted long-term repo operations (TLTRO 2.0) for an initial aggregate amount of Rs. 50,000 crore will be conducted. This is being done to facilitate funds flow to small and mid-sized corporates, including NBFCs and MFIs, who have been more severely impacted by the disruptions due to COVID-19. The funds availed by banks under TLTRO 2.0 should be invested in investment grade bonds, commercial paper, and non-convertible debentures of non-banking financial companies (NBFCs), with at least 50 per cent of the total amount availed going to small and mid-sized NBFCs and micro finance institutions (MFIs).

2) Refinancing Facilities for All India Financial Institutions

Special refinance facilities for a total amount of Rs. 50,000 crore will be provided to National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) to enable them to meet sectoral credit needs. This will comprise Rs. 25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); Rs. 15,000 crore to SIDBI for on-lending / refinancing; and Rs. 10,000 crore to NHB for supporting housing finance companies (HFCs).

These facilities are being provided since these institutions are facing difficulties in raising finances from the market, in view of the difficult financial conditions in view of COVID-19. The Governor said that advances under this facility will be charged at the RBI's policy repo rate at the time of availment, in order to enable them to provide credit at rates affordable for their borrowers.

3) Reduction of Reverse Repo Rate under Liquidity Adjustment Facility

Reverse repo rate has been reduced by 25 basis points from 4.0% to 3.75% with immediate effect, in order to encourage banks to deploy surplus funds in investments and loans in productive sectors of the economy.

The Governor explained that the surplus liquidity in the banking system, which has risen significantly due to sustained government spending and the various liquidity enhancing measures undertaken by the RBI, is the backdrop to this decision.

4) Raising Limit of Ways and Means Advances of states and UTs

Ways and Means Advances (WMAs) Limit of states and union territories has been increased by 60% over and above the limit as on March 31, 2020, in order to provide greater comfort to states for undertaking COVID-19 containment and mitigation efforts, and also to help them plan their market borrowing programmes better.

WMAs are temporary loan facilities provided by RBI to help governments tide over temporary mismatches in receipts and expenditure. The increased limit will be available till September 30, 2020.

Regulatory Measures

In addition to the measures announced by RBI on March 27, 2020, the bank announced additional regulatory measures to lessen debtors' burden in wake of the pandemic.

5) Asset Classification

With respect to recognition of Non-Performing Assets (NPAs), the central bank has decided that the payment moratorium period, which lending institutions have been permitted to grant as per RBI's announcement on March 27, 2020, will not be considered while classifying assets as NPAs. i.e., the moratorium period will be excluded while considering 90-day NPA norm for those accounts for which lending institutions decide to grant moratorium or deferment and which were standard as on March 1, 2020. This means that there will be an asset classification standstill for such accounts from March 1 - May 31, 2020. NBFCs will have the flexibility under the prescribed accounting standards to provide such relief to their borrowers.

Simultaneously, banks have been asked to maintain higher provision of 10% on all accounts whose classification has been put on a standstill as above, so that banks maintain sufficient buffers.

6) Extension of Resolution Timeline

Recognizing challenges to resolution of stressed assets or accounts which are or are likely to become NPAs, the period for implementation of resolution plan has been extended by 90 days. Currently, scheduled commercial banks and other financial institutions are required to hold an additional provision of 20 per cent if a resolution plan has not been implemented within 210 days from the date of such default.

7) Distribution of Dividend

It has been decided that scheduled commercial banks and cooperative banks shall not make any further dividend pay-outs from profits pertaining to FY 2019-20; the decision will be reviewed based on the financial position of banks at the end of the second quarter of the financial year 2019-20. This has been done in order to enable banks to conserve capital so that they can retain their capacity to support the economy and absorb losses in an environment of heightened uncertainty.

8) Lowering of Liquidity Coverage Ratio requirement

To improve the liquidity position for individual institutions, Liquidity Coverage Ratio requirement for scheduled commercial banks has been brought down from 100% to 80% with immediate effect. This will be gradually restored in two phases - 90% by October 1, 2020 and 100% by April 1, 2021.

9) NBFC Loans to Commercial Real Estate Projects

The treatment available for loans to commercial real estate projects with respect to the date for commencement for commercial operations (DCCO) has been extended to NBFCs, in order to provide relief to both NBFCs and the real estate sector. As per the current guidelines, DCCO in respect of loans to commercial real estate projects delayed due to reasons beyond the control of promoters can be extended by an additional one year, over and above the one-year extension permitted in normal course, without treating the same as restructuring.

Making an assessment of the current economic situation, the Governor informed that the macroeconomic and financial landscape has deteriorated, precipitously in some areas; but light still shines through bravely in some others.

According to IMF’s global growth projections, in 2020, the global economy is expected to plunge into the worst recession since the Great Depression, far worse than the Global Financial Crisis. In this situation, India is among the handful of countries that is projected to cling on to positive growth (at 1.9%). He noted that this is the highest growth rate among the G-20 economies.

Speaking on the RBI’s announcements, the Prime Minister Shri Narendra Modi has said that the measures will greatly enhance liquidity and improve credit supply. He said these steps will help small businesses, MSMEs, farmers and the poor and that it will also help all states due to the increase of WMA limits.