RBI MEASURES

17 April 2020

RBI strikes again

Following up on measures announced on 27 March, RBI today announced 1) 25bps reduction in reverse repo rate, 2) TLTRO of Rs 500bn for NBFCs, 3) Higher WMA limits for states, 4) Standstill on asset classification norms, and 5) Scope for further reduction in policy rates. With GDP growth at 1.5% and inflation at 3.8% in FY21, we see another 50bps reduction in repo rate. We also expect more targeted liquidity measures, restructuring to be allowed for stressed sectors and OMOs for transmission and ensuring financial stability.

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Reduction in reverse repo rate: RBI announced a 25bps reduction in reverse repo rate to 3.75% to incentivise banks to lend. This is in addition to 90bps reduction in reverse repo rate announced on 27 March 2020. This should incentivise banks who deposited Rs 4.9tn with RBI on 16 April 2020.

Targeted liquidity: RBI also announced targeted liquidity measures for NBFCs and MFIs with TLTRO 2.0 of Rs 500bn to begin with. SCBs outstanding lending to NBFCs/ MFIs is Rs 7tn. In addition to this, a refinance facility of Rs 500bn has been extended to NABARD, SIDBI and NHB. Given the lower revenues for states due to lockdown, WMA window for states has been increased by 60% from an increase of 30% announced earlier. This should help states in their spacing their borrowing needs. Notably, states had borrowed Rs 5.7tn in FY20 (+23%). *(Details in Regulatory Developments Section)*

Breather for borrowers: Standard borrowers as on 29 Feb 2020 who are taking benefit of moratorium to be given breather on 90-day asset classification norm. This has been extended to NBFCs as well who can be guided by IndAs standards. For all the accounts who are under standstill, a 10% provision will have to be made spread over Mar'20 and Jun'20. Commercial real estate projects were given one year extension of completion. The same has been extended to borrowers of NBFCs also.

Policy space remains: RBI Governor has indicated that policy space to reduce rates further exists as CPI inflation is expected to come down further. RBI has projected CPI inflation at 3.6% in FY21. A normal monsoon and muted core inflation due to lower aggregate demand implies inflation should come off. We believe there is room for another 50bps reduction in policy rate to support growth.

KEY HIGHLIGHTS

- Fixed rate repo reduced by 25bps to 3.75% from 4% earlier.
- Liquidity infusion and credit specific measures announced.
- RBI expects inflation to moderate to 3.6% in FY21.
- Policy space remains to boost growth.

Regulatory announcements

- RBI has announced TLRO 2.0. Earlier, TLTROs have largely deployed funds to bonds issued by public sector entities and large corporates, especially in primary issuances. The current economic stress calls for more focus on small and mid-sized corporates, NBFCs and MFIs. Thus, the new version of TLTRO is targeted towards them. TLRO proceeds to be deployed in investment grade corporate bonds, commercial paper and NCDs of NBFCs. Investments made by banks under TLROs will be classified as HTM even in excess of 25% of total permitted investment. Exposures under TLROs will also not be reckoned under the large exposure framework (LEF), like earlier.

- Owing to tightening financial conditions, RBI has announced refinance facility of Rs 500bn to NABARD, SIDBI and NHB. This will comprise of Rs. 250bn to NABARD for refinancing RRBs, cooperative banks and MFIs, Rs. 150bn to SIDBI for on-lending/refinancing to MSMEs and Rs. 100bn to NHB for supporting HFCs.

- To ease liquidity position, LCR requirement for SCBs is being brought down to 80% from earlier requirement of 100% by 31 Mar 2020. It has to be restored back in a phased manner to 90% by 1 Oct 2020 and 100% by 1 Apr 2021 with immediate effect.

- To maintain adequate risk buffers, all SCBs, AIFIs & NBFCs are required to maintain an additional provision of 20% if a resolution plan has not been implemented within 210 days from the date of such default. This has been extended by 90days.

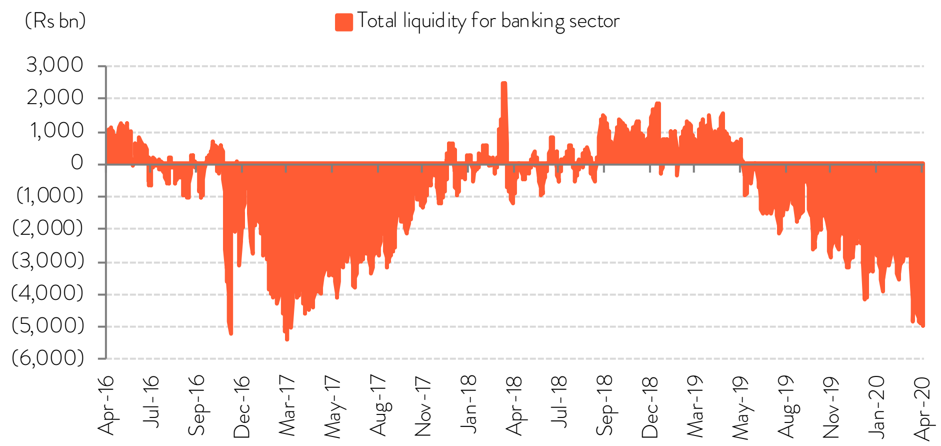
- SCBs and cooperative banks shall not make any further dividend payouts from profits pertaining to the financial year ended 31 Mar 2020. However, this shall be reviewed on the basis of the financial position of banks for the quarter ending September 30, 2020.

- On 1 Apr 2020 the RBI had announced an increase in the ways and means advances (WMA) limit of states by 30%. It has now been decided to increase the WMA limit of states by 60% over and above the level as on 31 Mar 2020. This will be applicable till 30 Sep 2020.

- To provide relief to the ailing economy, 3-month moratorium on payment of all term loan was allowed to be offered by all banks and NBFCs (incl HFCs) as of 1 Mar 2020. The RBI has now added that this moratorium period can be excluded by banks from the "number of days past due" in respect of NPA recognition. This implies there would an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020.

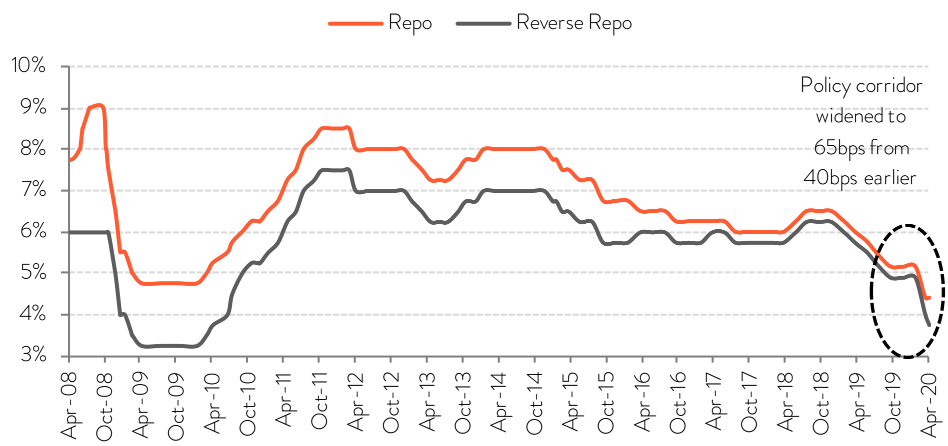
- In view of the risk build-up in banks' balance sheets, RBI has mandated that all banks will be required to remain adequately provisioned. As a result, they will have to maintain higher provision of 10% on all standstill accounts in Mar'20 and Jun'20. These provisions can be adjusted later on against the provisioning requirements for actual slippages in such accounts.
- To provide reliefs to NBFCs and the real estate sector, NBFCs are now allowed to offer one year relaxation to their commercial real estate borrowers if there is delay in the date for commencement for commercial operations (DCCO) beyond the control of promoters. This extension would be over and above the one-year extension permitted in normal course, without treating the same as restructuring.

FIG 1 – LIQUIDITY SURPLUS RISES TO RS 4.6TN ON AVERAGE IN APR'20



Source: CEIC, Bank of Baroda Research; Apr'20 refers to data till 16 April 2020

FIG 2 – REPO & REVERSE REPO SPREAD RISE TO 65BPS FROM 40BPS EARLIER



Source: Bloomberg, Bank of Baroda Research

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