Fiscal relief avid spread of COVID-19

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RBI's STATEMENT ON DEVELOPMENT AND REGULATORY POLICIES

The COVID-19 has caused a pandemic situation to the country's economy and has presented fresh challenges for the country's economy, causing severe disruptive impact on both demand and supply side elements which has the potential to derail the growth story. The fresh challenge such as disruption in the movement of cash and credit flows in the market has a huge impact on the Nation's economy.

Statement on Developmental and Regulatory Policies issued by the Reserve Bank of India on March 27, 2020:

The Reserve Bank of India has issued its statement on Development and Regulatory Policies in order to provide certain relaxations to the lenders and the borrowers. This Statement sets out various developmental and regulatory policies that directly address the stress in financial conditions caused by COVID-19. They consist of:

(i) Expanding liquidity in the system sizeably to ensure that financial markets and institutions are able to function normally in the face of COVID-related dislocations;
(ii) Reinforcing monetary transmission so that bank credit flows on easier terms are sustained to those who have been affected by the pandemic;
(iii) Easing financial stress caused by COVID-19 disruptions by relaxing repayment pressures and improving access to working capital; and
(iv) Improving the functioning of markets in view of the high volatility experienced with the onset and spread of the pandemic.

I. Liquidity Management:

In order to ease the COVID-19 related liquidity constraints, the first steps taken are intended to ensure the adequate liquidity is available to all the constituents.

A. Targeted Long-Term Repos Operations (TLTROs)

- The extent and pace of spread of COVID-19 in India has resulted in large sell-offs in the domestic equity, bond and forex markets. With the intensification of redemption pressures, liquidity premia on instruments such as corporate bonds, commercial paper and debentures have surged. Combined with the thinning of trading activity with the COVID outbreak, financial conditions for these instruments, which are used, *inter alia*, to access working capital in the face of the slowdown in bank credit, have also tightened. In order to mitigate their adverse effects on economic activity leading to pressures on cash flows, it has been decided that the Reserve Bank will conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to INR. 1,00,000 crores (~ USD 13.33 Billion) at a floating rate linked to the policy repo rate.

- 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. Banks shall be required to acquire up to fifty per cent of their incremental holdings of eligible instruments from primary market issuances and the remaining fifty per cent from the secondary market, including from mutual funds and non-banking finance companies. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25 per cent 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.

- The first TLRO auction to be held on 27/03/2020.

B. Cash Reserve Ratio

- As a one-time measure in order to help the banks to tide over the disruption caused by the COVID-19, the RBI has reduced the CRR by 100 basis points to 3% of net demand and time liabilities (NDTL) w. e. f March 28, 2020. Resulting in release of a primary liquidity of about INR 1,37,000 crores (~ USD 18.27 Billion) uniformly across the banking system in proportion to the liabilities of the constituents rather than in relation to the holdings of excess Statutory Liquidity Ratio. This is a one-time measure & this dispensation will be available for a period of one year ending on March 26, 2021.

- Minimum daily CRR balance maintenance reduced from 90 % to 80 % w. e. f. March 28, 2020; by taking into cognizance of the hardships faced by banks in terms of social distancing of staff and consequent strains on reporting requirements. This one-time dispensation will be available up to June 26 2020.

C. Marginal Standing Facility

Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.

In view of the exceptionally high volatility in domestic financial markets which brings in phases of liquidity stress and to provide comfort to the banking system, it has been decided to increase the accommodation under the marginal standing facility (MSF) from 2 per cent of the statutory liquidity ratio (SLR) to 3 per cent with immediate effect. This measure will be applicable up to June 30, 2020. This measure should provide comfort to the banking system by allowing it to avail an additional INR1,37,000 crore (~ USD 18.27 Billion) of liquidity under the LAF window in times of stress at the reduced MSF rate as mentioned below.

The three measures relating to Targeted Long-Term Repo Operations, Cash Reserve Ration and Marginal Standing Facility is expected to inject a total liquidity of 3.74 lakh crore (~ USD 50 Billion) to the system.

D. Widening of the Monetary Policy Rate Corridor

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on March 27, 2020 decided to:

- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 75 basis points to 4.40 per cent from 5.15 per cent with immediate effect;
- accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.65 per cent from 5.40 per cent;
- further, consequent upon the widening of the LAF corridor the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0 per cent.
- 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 target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

II. Regulation and Supervision

In the extraordinary situation faced by the Nations, its economy and the businesses like it is faced now due to the COVID-19 pandemic, there is a huge burden on the borrowers for debt servicing brought about by the disruptions in trading and business activities of the borrowers. Efforts are being undertaken to address such issues as follows:

A. Moratorium on Term Loans

The Reserve Bank of India has allowed all the Commercial Banks (including the Small Finance Bank, Regional Rural Banks and Local Area Banks), Co-operative Banks, all India Financial Institutions and Non-Banking Financial Companies (including housing finance companies and micro finance companies) ("Lending Institutions") to allow a moratorium of three months on payments of instalments in respect of all term loans outstanding as on March 31, 2020. The repayment schedules and all subsequent due dates, as also the tenor for such loans may be shifted across the board by three months.

This is intended to provide a big relief to the term loan borrowers over the liquidity crisis faced by them during the current economic situation.

B. Deferment of Interest on Working Capital Facilities

The Reserve Bank of India has allowed the lending institutions to defer the payment of interest in respect of the working capital facilities sanctioned in the form of cash credits/ overdrafts for a period of three months for the facilities outstanding as on March 31, 2020. The Outstanding interest for the period will be paid after the expiry of the deferment period.

The relaxations in terms of moratorium and deferment in the payment of Instalments and Interest as stated in paragraph A&B above will not be treated as change in the terms and conditions of the loan agreements due to the financial difficulties of the borrowers and will not be considered as a downgrade in the asset classification as per the Income Recognition and Asset Classification Norms of RBI.

C. Easing of Working Capital Financing

Lending institutions are allowed to recalculate the drawing power for the working capital facilities such as cash credits/ overdrafts by reducing the margins and/or by reassessing the working capital cycle of the borrower without considering such changes in credit terms as concessions granted and it will not be considered as a downgrade in the asset classification as per the Income Recognition and Asset Classification Norms of RBI.

In respect of paragraphs A, B and C above, the rescheduling of payments will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

D. Deferment of Implementation of Net Stable Funding Ratio (NSFR)

The Net Stable Funding Ratio is the amount of available stable funding relative to the amount required for stable finding. As part of reforms undertaken in the years following the global financial crisis, the 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 per cent from April 1, 2020.

The implementation of NSFR is deferred by six months from April 1, 2020 to October 1, 2020.

E. Deferment of Last Tranche of Capital Conservation Buffer (CCB)

The capital conservation buffer (CCB) is designed 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. The requirement is based on simple capital conservation rules designed to avoid breaches of minimum capital requirements.

- As per Basel standards, the CCB was to be implemented in tranches of 0.625 per cent and the transition to full CCB of 2.5 per cent was set to be completed by March 31, 2019. It was subsequently decided to defer the implementation of the last tranche of 0.625 per cent of the CCB from March 31, 2019 to March 31, 2020.

- Considering the potential stress on account of COVID-19, the implementation of the last tranche of 0.625 per cent of the CCB is further deferred from March 31, 2020 to September 30, 2020.

- Consequently, the pre-specified trigger for loss absorption through conversion/write-down of Additional 8 Tier 1 instruments (PNCPS and PDI) shall remain at 5.5 per cent of risk-weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020.

III. Financial Markets.

The impact of the COVID-19 on the currency markets has increased the volatility of the Rupee exchange rates as compared to various other foreign currencies. The Reserve Bank of India has taken the following step in order to improve the depth and price discovery in the foreign exchange market segment by reducing the arbitrage between the onshore and offshore markets.

A. Permitting Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets (Offshore NDF Rupee Market)

- The offshore Indian Rupee (INR) derivative market - the Non-Deliverable Forward (NDF) market - has been growing rapidly in recent times. At present, Indian banks are not permitted to participate in this market, although the benefits of their participation in the NDF market have been widely recognised.

- All the aspects relating to the offshore Indian Rupee (INR) derivative market have been examined by the RBI and RBI has come to a conclusion that the time is apt to remove the segmentation between the onshore and offshore markets and improve the efficiency of price discovery.

- The RBI, in consultation with the Government, has decided to permit banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBU's) to participate in the Non-Deliverable Forward Market with effect from June 01, 2020. Banks may participate through their branches in India, their foreign branches or through their IBUs

GOVERNMENT OF INDIA's RELIEF PACKAGE FOR POOR AVID SPREAD OF COVID-19

Pradhan Mantri Garib Kalyan Package (Welfare Scheme for Poor) amid Spread of COVID-19:

On March 26, 2020, the Union Finance and Corporate Affairs Minister Smt. Nirmala Sitharaman has announced INR 1.70 Lakhs Crores (~ USD 22.67 billion) relief package under the Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against COVID-19. While addressing the media, Smt. Nirmala Sitharaman said that "Today's measures are intended at reaching out to the poorest of the poor, with food and money in hands, so that they do not face difficulties in buying essential supplies and meeting essential needs."

1. Insurance Scheme for health workers fighting COVID-19 in Government Hospitals and Health Care Centres:

- Safai Karmacharis (Cleaning workers), ward-boys, nurses, ASHA workers, paramedics, technicians, doctors and specialists and other health workers would be covered by a Special insurance Scheme.
- Any health professional, who while treating Covid-19 patients, meet with some accident, then he/she would be compensated with an amount of Rs 50 lakh (~ USD 66,670) under the scheme.
- All government health centres, wellness centres and hospitals of Centre as well as States would be covered under this scheme approximately 2.2 million health workers would be provided insurance cover to fight this pandemic.

2. Pradhan Mantri Garib Anna Yojana:

- The Government of India would not to allow anybody, especially any poor family, to suffer on account of non-availability of the food grains dur to disruption in the next 3 months.
- Approximately 800 million individuals, i.e, roughly 2/3 of the India's population would be covered under this scheme.
- Each one of them would be provided double of their current entitlement (current entitlement being 5 Kgs per person of wheat / rice) over next three months.
- This additionality would be free of cost.
- To ensure adequate availability of protein to all the above-mentioned individuals, 1 kg of pulses per family, would be provided according to regional preferences for next three months.
- These pulses would be provided free of cost by the Government of India.

3. Pradhan Mantri Garib Kalyan Yojana:

With a view to augment the income of the Small and Marginal Farmers, the Government of India had launched a Central Sector Scheme, namely, Pradhan Mantri Kisan Samman Yojana with effect from December 01, 2018. The scheme aimed to supplement the financial needs of the Small and Marginal Farmers in procuring various inputs to ensure proper crop health and appropriate yields, commensurate with the anticipated farm income at the end of each crop cycle. This would also protect them from falling in the clutches of moneylenders for meeting such expenses and ensure their continuance in the farming activities.

Under the scheme, a direct payment of INR 6000/- per year was to be transferred in three equal instalments of INR 2000/- every four months into the Aadhar linked Bank Account of the eligible land holding Small and Marginal Farmers families.

Honourable Finance minister has now announced that the first instalment of INR 2,000 due in 2020-21 will be front-loaded and paid in April 2020 itself under the Pradhan Mantri Kisan Samman Yojana. It is expected to cover 87 million farmers across India.

4. Pradhan Mantri Garib Kalyan Yojana:

A. Help to Poor:

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet. Accounts opened under PMJDY are being opened with Zero balance.

Honourable finance minister has now announced that a total of 204 million Pradhan Mantri Jan-Dhan Yojana women account-holders would be given an exgratia of INR 500 per month for next three months.

B. Gas Cylinders:

Pradhan Mantri Ujjwala Yojana (PMUY) aims to safeguard the health of women & children by providing them with a clean cooking fuel – LPG, so that they don’t have to compromise their health in smoky kitchens or wander in unsafe areas collecting firewood.

Honourable finance minister has now announced that under Pradhan Mantri Ujjwala Yojana, gas cylinders, free of cost, would be provided to 80 million poor families for the next three months.

C. Help to low wage workers in Organised Sector:

- Wage-earners earning below INR 15,000 per month in businesses having less than 100 workers are at risk of losing their employment.
- Under this package, government proposes to pay 24 percent of their monthly wages (constituting both employer and employee contribution) into their PF accounts for next three months.
- This would prevent disruption in their employment and also reduce the burden on employers.

D. Support for Senior Citizens (above 60 years), widows and Divyangs:

- Government has proposed to give INR 1000/- to tide over difficulties during the next 3 months to approximately 30 million aged widows and people in Divyang categories who are vulnerable to economic disruption caused by COVID-19.

E. Mahatma Gandhi National Rural Employment Guarantee Act:

The MNREGA aims at enhancing the livelihood security of the people in rural areas by guaranteeing hundred days of wage employment in the financial year to a rural house hold whose adult members volunteer to do unskilled manual work.

- Under PM Garib Kalyan Yojana, MNREGA wages would now be increased by Rs 20 per day with effect from 1 April, 2020. Wage increase under MNREGA will provide an additional Rs 2,000 benefit annually to a worker.
- This is expected to benefit approximately 136 million families.

F. Self Help Groups (SFG):

Deen dayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM), under Ministry of Rural Development, aims to ensure that at least one-woman member from each rural poor household is brought into the fold of women SHGs and their federations within a definite time frame with the objective of providing livelihood.

Honourable finance minister has now increased the limit of collateral free lending from INR 10 lakhs ((~ USD 13,330) to INR 20 lakhs (~ USD 26,660) to the women organised through 63 lakhs Self Help Groups (SHG) which is expected to support 69 million households.

G. Other measures

(i) Organised Sector:

- Employees' Provident Fund Regulations will be amended to include Pandemic as the reason to allow non-refundable advance of 75 percent of the amount or three months of the wages, whichever is lower, from their accounts.
- Families of 40 million workers registered under Employees Provident Fund can take benefit of this window.

(ii) Building and other construction workers welfare fund:

- Welfare Fund for Building and Other Constructions Workers has been created under a Central Government Act.
- There are around 35 million registered workers in the Fund.
- State Governments will be given directions to utilise this fund to provide assistance and support to these workers to protect them against economic disruptions.

(iii) District Mineral Fund:

- The State Government will be asked to utilise the funds available under District Mineral Fund (DMF) for supplementing and augmenting facilities of medical testing, screening and other requirements in connection with preventing the spread of COVID-19 pandemic as well as treating the patients affected with this pandemic.

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