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The RBI proactively announces targeted relief measures

- In an unscheduled presser today, the Reserve Bank of India (RBI) governor announced a slew of targeted measures aimed at providing relief to select segments impacted by the ongoing second COVID wave.

- Measures were focused on providing relief and boost lending to individuals, small businesses, and Micro, Small and Medium Enterprises (MSMEs) by reopening restructuring schemes and new liquidity schemes.

- A debt restructuring for small borrowers was announced while the RBI avoided, for now, any temporary blanket moratorium or measures for large corporates.

- Given the strains on the health infrastructure at present, the RBI provided an on-tap liquidity window of Rs 50,000 crores for emergency health services with tenors of up to three years at the repo rate till March 31, 2022.

- The central bank announced a special three-year long-term repo operation for small finance banks (SFBs) and also permitted them to reckon fresh lending to smaller Micro Finance Institutions (MFIs) for on-lending to individual borrowers as priority sector lending.

- Additionally, the RBI announced the second leg of the G-SAP 1.0 (of Rs 35,000 crores) that led 10Y G-sec yield to end below the 6% threshold today.

- It relaxed over-draft limits for state governments to enable better management of their fiscal situation.

- The RBI governor also took stock of the current economic situation and remained optimistic, alluding to the fact that the economy remains relatively resilient despite a severe second COVID wave.

- Given the uncertainty associated with the pandemic, we believe the RBI's approach is to provide targeted relief in a calibrated manner at this point and to remain open to step up policy support as the situation unfolds.

- In view of the evolving COVID and macroeconomic situations, we believe that policy normalization is off the table till clarity emerges on the COVID situation.

- This is in line with the state-based forward guidance, where the RBI is committing to an accommodative policy stance till prospects of sustained recovery are well secured.

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RBI takes proactive steps to alleviate pressures due to the ongoing second COVID wave

In light of the rampant second COVID wave, the RBI governor held an unscheduled conference today and announced a slew of targeted measures. The RBI has remained proactive since the beginning of the pandemic last year. Starting in February 2020, the RBI front-loaded policy rate cuts, maintained an accommodative stance and took several liquidity measures to reinforce easy financial conditions to support economic recovery. Overall, the central bank has announced Rs 13.6 lakh crore (6.9% of Gross Domestic Product [GDP]) worth of liquidity measures since February 2020.

Liquidity Measures since February 06, 2020	
Measures	Announced
LTRO	200,000
Variable rate repo	225,000
Standing Liquidity Facility for Primary Dealers	7,200
Cash Reserve Ratio cut	137,000
Marginal Standing Facility (dip by 1% in SLR)	137,000
TLTRO	100,000
TLTRO (2.0)	50,000
Net OMO purchases	150,000
Special liquidity facility for mutual funds	50,000
Refinance to NABARD, SIDBI, NHB and EXIM Bank	75,000
Special liquidity scheme for NBFCs	30,000
56-day term repo	100,000
On Tap TLTRO	100,000
Total	**1,361,200**
As proportion of 2020-21 GDP (%)	**6.9**

Source: RBI

Today, the central bank carried forward the same proactive approach into FY22 and announced targeted measures aimed at providing relief to retail and MSME borrowers by reopening restructuring schemes and new liquidity schemes to boost lending to individuals, MSMEs and a wide range of borrowers in health/COVID-associated fields. The RBI also announced the second leg of the G-SAP 1.0 (of Rs 35,000 crores) that has led the yield on the 10Y G-sec to end below the 6% threshold today. Given evolving COVID and macroeconomic situations, we believe that policy normalization is off the table till clarity emerges on the COVID situation. This is in line with state-based forward guidance, where the RBI is committing to keep policy stance accommodative till prospects of sustained recovery are well secured. Given the uncertainty associated with the pandemic and its uneven spread, we believe the RBI's approach is to provide targeted relief in a calibrated manner at this point and to remain open to step up policy support as the situation unfolds.

The RBI governor also took stock of the current state of the economy to provide more context to the measures announced. The RBI struck an optimistic tone in the current evolving COVID environment. While the COVID situation is much worse compared to the previous peak last year, the economy shows more resilience this time around. This follows from more localized and targeted lockdowns (in contrast to a nationwide lockdown last year) along with better adaptability by households and businesses. This broadly aligns with our view, and we expect the hit to economic activity to be less severe. We expect the second COVID wave to weigh on sequential economic recovery, mostly in Q1 FY22. The economy should rebound quickly in the following quarters, assuming the second COVID wave peaks in the coming weeks and vaccines remain effective against virus variants. High-frequency indicators such as electricity demand, mobility levels and unemployment levels point towards sequential deterioration; however, they remain comfortably above the previous year's levels.

RBI unveils Restructuring 2.0 for individuals, small businesses and MSMEs

One of the key measures announced today pertained to the opening up of a Restructuring 2.0 framework for individuals, small businesses and MSME borrowers. The RBI held back on providing a blanket moratorium for loans and also left out large corporates from the restructuring scheme. It took a calibrated and targeted approach, focusing on the more vulnerable borrowers for the moment. Under the new scheme, individuals, small businesses and MSME borrowers having aggregate exposure of up to Rs 25 crore that have not availed restructuring under any of the earlier restructuring frameworks, and who were classified as 'Standard' as on March 31, 2021, are eligible to be considered under Resolution Framework 2.0. Restructuring under this framework can be invoked up to September 30, 2021 and will have to be implemented within 90 days after invocation.

In respect of individual borrowers and small businesses who availed loan restructuring under Resolution Framework 1.0, lending institutions are permitted to use this new window to modify the moratorium and/or extend the residual tenor up to a total of 2 years keeping in mind the fresh impact from COVID. In respect to small businesses and MSMEs, lending institutions are also being permitted, as a one-time measure, to review working capital sanctioned limits based on a reassessment of the working capital cycle, margins, etc.

Liquidity support for emergency health services

Given the strains on the health infrastructure at present, the RBI provided an on-tap liquidity window of Rs 50,000 crore for emergency health services with tenors of up to three years at the repo rate till March 31, 2022. Under the scheme, banks can support entities including medical facilities, hospitals, logistics firms, patients for treatment, manufacturers of vaccines, oxygen and ventilators, etc. This is likely to aid in ramping up medical and healthcare facilities and also enhance production and capacity levels that will provide long-term benefits to the sector. Individual patients who are burdened by COVID-related expenses are also likely to benefit. In this respect, banks can also lend indirectly -- through intermediary financial entities regulated by the RBI -- that are likely to provide assistance to more last mile segments.

Banks have also been incentivized to drive immediate credit to these segments through a priority sector classification up to March 31, 2022, till repayment or maturity of the loans. As an additional incentive, banks will be eligible to park their surplus liquidity up to the size of the COVID loan book with the RBI at 40 basis points (bps) higher than the reverse repo rate.

Measures to support last mile supply of credit

The RBI announced a slew of liquidity and credit support measures to support small borrowers and unorganized entities that remain more vulnerable from the impact of the second wave of the virus.

Small finance banks (SFBs) have been prominent in providing the last mile credit to individual borrowers and small businesses. To incentivize lending to these segments, the RBI announced a special three-year long-term repo operation (SLTRO) of Rs 10,000 crores at repo rate for SFBs to be deployed for fresh lending of up to Rs 10 lakhs per borrower. The availability of funds at the repo rate for SFBs is likely to drive credit to the more cash-strapped and needy segments of the economy. This facility will be available till October 31, 2021. However, SFBs will have to provide government securities for the availability of cheap repo-linked funds that might not be readily available with them.

The RBI also permitted SFBs to reckon fresh lending to smaller MFIs (with asset size of up to Rs 500 crores) for on-lending to individual borrowers as priority sector lending. This has been a long time ask by industries and is likely to accelerate credit to this segment. This facility will be available up to March 31, 2022.

To further incentivize lending by banks to MSMEs, the exemption for banks to deduct credit disbursed to new MSME borrowers (for exposures up to Rs 25 lakh) from their net demand and time liabilities (NDTL) for calculation of the cash reserve ratio (CRR) is being extended till December 31, 2021, from October 1, 2021, earlier.

Other measures announced

The RBI also announced a slew of other measures to support different channels of the economy.

- To enable capital conservation at a time of COVID-related stress, banks are allowed to utilize 100% of floating provisions/counter-cyclical provisioning buffer held by them as on December 31, 2020. This is permitted up to March 31, 2022.

- In order to provide relief for state governments, the RBI has permitted them to remain in overdraft for a maximum of 50 days compared to 36 days earlier. The number of consecutive overdraft days has been increased from 14 days to 21 days. This facility will be available up to September 30, 2021. This is in addition to the Ways and Means Advance (WMA) limits of states that were already enhanced on April 23, 2021.

- The RBI also announced measures to rationalise certain components of the extant Know Your Customer (KYC) norms as listed below:
    a. Extending the scope of video KYC known as V-CIP (video-based customer identification process) for new categories of customers
    b. Conversion of limited KYC accounts opened on the basis of Aadhaar e-KYC authentication in non-face-to-face mode to fully KYC-compliant accounts
    c. Introduction of more customer-friendly options, including the use of digital channels for the purpose of periodic updation of KYC details of customers
    d. Enabling the use of KYC Identifier of Centralised KYC Registry (CKYCR) for V-CIP and submission of electronic documents
    e. Keeping in view COVID-related restrictions, the RBI advised regulated entities that for customer accounts where periodic KYC updating is due/pending, no punitive restriction on operations of customer account(s) shall be imposed till December 31, 2021, except under certain conditions.

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