RBI announces loan relief, Rs 50,000 cr liquidity to tide over Covid

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Central bank's 'immediate objective is to preserve human life and restore livelihoods', says Shaktikanta Das.
The Reserve Bank of India (RBI) on Wednesday announced a Covid package of Rs 50,000 crore for vaccine makers, medical equipment suppliers, hospitals, and even patients in need of funds to treat the disease, while opening up another round of restructuring of loans for individual and small borrowers for up to two years.

The RBI also said it would be buying Rs 35,000 crore of bonds from the secondary market on May 20. This will be part of the Rs 1 trillion Government Securities Acquisition Programme (G-SAP) scheduled for the quarter, of which Rs 25,000 crore has already been done. Yields reacted positively to the RBI measures and the 10-year bonds dropped below 6 per cent.

RBI Governor Shaktikanta Das announced these and other measures in an unscheduled press conference on Wednesday morning, in the first concrete effort by a central agency to fight the stress brought forward by the rising second wave of Covid.

“The immediate objective is to preserve human life and restore livelihoods through all means possible,” Das said, adding, “We are committed to go unconventional and devise new responses as and when the situation demands.”

The central bank stood in “battle readiness” to ensure that financial conditions remain congenial and markets continue to work efficiently.

The Rs 50,000 crore emergency health services loans, which can be given by banks till March 31, 2022, will be classified as priority sector loans for three years or repayment, whichever is earlier. Priority sector loans are exempted from maintaining cash reserve or statutory liquidity ratios, and so banks can extend them at concessional rates too.

Moreover, banks can avail of the funds at repo rate, currently at 4 per cent, for providing fresh loans to a wide range of entities related to Covid care. Banks can lend this amount directly, or through intermediaries, and should create a 'Covid loan book’ under the scheme.

To incentivise the lenders, the RBI said banks would be eligible to park their surplus liquidity up to the size of the Covid loan book with the RBI at repo rate minus 25 basis points, or at 3.75 per cent. Presently, banks park their excess funds at the reverse repo rate, which is 3.35 per cent.

According to Soumya Kanti Ghosh, group chief economic advisor of the State Bank of India (SBI) group, the health loan will have a trickle effect on other sectors as well. The amount of Rs 50,000 crore is roughly 9 per cent of India's total health expenditure of Rs 6 trillion.

"A direct support to the sector will generate total output demand of roughly Rs 80,000 crore. The sectors to benefit include organic chemicals, rubber, plastics among others where the limit utilisation is close to 55 per cent," Ghosh said.

To ease the Covid stress, the RBI governor extended another round of restructuring for individual borrowers and small businesses.

The governor said such borrowers with a loan outstanding of up to Rs 25 crore, and who did not avail of moratorium or restructuring relief last year, could ask for restructuring of their loans for up to two years.

The window remains open up to September 30, and banks will have to do the restructuring within 90 days of receiving the request. For this purpose, loans that were standard as on March 31 will be considered.

Individual borrowers and small businesses that availed of the facility last year but allowed restructuring of less than two years can now demand to stretch their repayment period up to two years, the RBI governor said.

Bankers cautioned that this was not a moratorium of loans, but leaving the discretion to banks to extend relief as they deem fit.

Sunil Mehta, chief executive officer of Indian Bank's Association (IBA), said about 90 per cent of borrowers would be eligible for the restructuring.

"Since it will be for standard assets, those with dues of 89 days can also avail of recast benefit. The room to increase moratorium term for those who availed of restructuring last year will give them support during the present phase, which may impact business prospects," said Mehta.

That means, even when an account is categorised as stressed for not servicing loans for a month or two can avail of the restructuring.

The RBI also opened up a special long term repo operation window for small finance banks (SFB), whereby the banks can borrow funds up to Rs 10,000 crore at repo rate for deploying for fresh loans of up to Rs 10 lakh per borrower.

Loans given by SFBs to small microfinance institutions (MFIs) that have asset size of up to Rs 500 crore will now be considered under priority sector. Banks don't need to maintain CRR or statutory liquidity ratio (SLR) on their priority sector loans.

RBI announces loan relief, Rs 50,000 cr liquidity to tide over CovidBesides, the RBI extended some measures taken last year for banks and other entities to ease the pain related to the resurgence of the pandemic.
For example, it allowed banks to exclude loans up to Rs 25 lakh given to the micro, small and medium enterprises from its net demand and time liabilities (NDTL) for the purpose of calculating cash reserve ratio (CRR). This scheme was to end on October 21, now it can be done till December 31.

Banks were also allowed to use 100 per cent of their floating provisions set aside as buffers for bad times to cover their specific bad debts.

Many economists saw the surprise measure as a precursor for other measures to come. Some of those measures could come in the monetary policy meet scheduled in early June.

“The interesting part here is that as the RBI believes that the impact this time will be less than that of last year, there will probably be no announcement of a moratorium as of now. Depending on the evolving circumstances there can be more measures expected from the RBI in the coming months," said Madan Sabnavis, chief economist of Care Ratings.

According to Kaushik Das, chief India economist of Deutsche Bank, the measures announced were only the first step while “it is reasonable to expect more regulatory measures in the upcoming June policy and thereafter, depending on the evolving Covid-19 trajectory and macro situation.”

However, Deutsche Bank doesn’t expect any immediate measures from the government as the RBI measures were taken after consultation with banks and the government.

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