

RBI POLICY MEASURES

05 May 2021

RBI measures for Covid 2.0

RBI announced a slew of measures to boost health care spending (Rs 500bn on-tap facility), last mile credit delivery to small borrowers (Rs 100bn), restructuring for MSMEs, individual borrowers and liquidity for state governments. For Centre, RBI announced G-SAP of Rs 350bn on 20 May 2021. These are first set of measures to mitigate the economic impact of second wave and local containment measures. We believe more measures will follow, in particular by state government who have announced local lockdowns.

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Prioritising Health infra: To give a boost to India's health infrastructure, RBI announced a three-year Rs 500bn special on-tap facility for onward lending to hospitals, vaccine suppliers, laboratories, manufacturers and individuals. These loans will be eligible for PSL. An amount equal to loans under this facility (Covid loans) will be eligible to be parked with RBI at a 0.4% premium to existing rate.

Incentivising SFBs to lend: Small Finance Banks (SFBs) are integral part of last mile delivery of small business and individual loans. SFBs can now borrow Rs 100bn (10% of SFBs loan book) for three-years from RBI at repo rate for loans up to Rs 1mn per borrower. SFBs lending to MFIs (asset size up to Rs 5bn) will be eligible for PSL as well.

MSME and small borrowers: For MSMEs and small borrowers (up to Rs 250mn), RBI has announced Resolution Framework 2.0 under which they can avail of restructuring with the condition that they should have been standard as of Mar'21 and not availed of any restructuring earlier (Resolution Framework 1.0). For those customers who have availed of restructuring earlier and where moratorium plan was less than 2 years, the moratorium/ restructuring period can be extended for a residual tenor of 2 years. MSME lending up to Rs 2.5mn will be eligible for CRR exemption till Dec'21.

Enhancing government spending: While GST collections did hit an all-time high in Mar'21, tax collections are likely to move down as local restrictions bite. For instance, diesel sales have already seen a dip in April over March. However, Centre and states will have to continue to spend on purchasing health equipment and vaccines, paying salaries and continuing welfare measures. Thus RBI has relaxed terms for availment of overdraft facility for states as well as ways and means advance. For Centre, RBI has announced additional purchase of Rs 350bn under G-SAP 1.0 on 20 May 2021.

KEY HIGHLIGHTS

- On-tap liquidity scheme for ramping up health infrastructure worth Rs 500bn announced.
- SFBs incentivised to lend. MSMEs and small borrowers can avail restructuring.
- State governments eligible for higher bridge financing from RBI.



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