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RBI UNVEILS A BOUQUET OF INNOVATIVE MEASURES: MEASURES NOW TRANSCEND ECONOMIC HEALTH AND MOVE TO PUBLIC HEALTH

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In the backdrop of the surging COVID-19 second wave, RBI made important emergency announcements to support the fight against the COVID-19 pandemic and support the economy in general. The broad macroeconomic background for this announcement is still the one presented in the Monetary Policy Statement issued in April 2021. However there are some concerns evident on inflation from the statement, predominately emanating from spike in global commodity prices. The loss on account of second wave is expected to be lesser as business resilience in wake of the disaster has improved since last time. Businesses have learnt to survive despite Covid restrictions and containments.

The measures today are largely addressed to health sector and dedicated funding has been extended to the sector. A special on-tap liquidity of ₹50,000 crore with tenor up to 3 years at repo rate for lending for emergency healthcare required to fight Covid crisis, to various entities like vaccine manufactures, hospitals/dispensaries, pathology labs, manufactures and suppliers of oxygen and ventilators, importers of vaccines and COVID related drugs among others and even patients for treatment has been announced. The macro impact of the scheme can be gauged from the fact that ₹50,000 crore is roughly 9% of India's total health expenditure of ₹ 6 lakh crore under private final consumption expenditure in 2019-20. A direct support to the sector will generate total output demand of roughly ₹80,000 crore. The sectors to benefit include organic chemicals, rubber, plastics among others where the limit utilisation is close to 55%.

Small finance banks (SFBs) is another segment that has received special attention. RBI has given liquidity support of ₹10,000 crore to the SFBs, under a special three-year long-term repo operations (SLTRO) at repo rate till 31 Oct'2021. Further, RBI has allowed SFBs to lend MFIs for on-lending (with asset size of up to ₹500 crore) under priority sector lending (PSL).

In respect of banking sector, RBI has extended provision to deduct credit disbursed to 'New MSME borrowers' from their NDTL for calculation of the CRR till 31 Dec'21. If we go by ECLGS numbers, we estimate that banks will be able to lend around ₹30,000 crore fresh loans to MSMEs and estimated that banks will save CRR of ₹1,000 crore from the fresh loans to the MSME units.

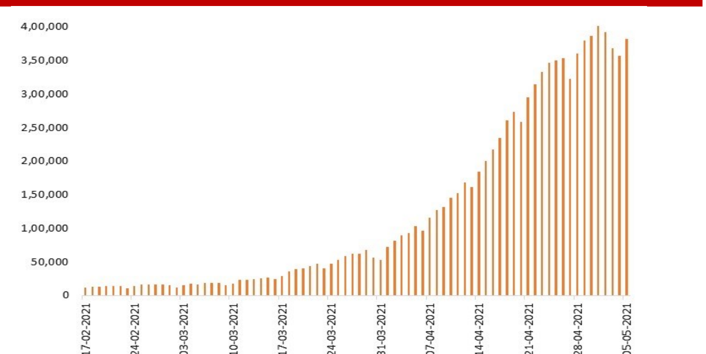
RBI has also announced a restructuring resolution framework 2.0 for individuals, small businesses and MSME borrowers having an aggregate exposure of upto ₹25 crore, and not availing restructuring under any of the earlier restructuring frameworks and classified as Standard. Further, RBI has allowed banks to utilise 100% of floating provisions/countercyclical provisioning buffer held by them as on 31 Dec'20 for specific provisions for NPAs, with immediate effect and up to 31 Mar'22. We however expect banks are unlikely to use such provisions as banks provisioning coverage ratio is already close to 85% as on Dec'20. More importantly, the last tranche of 0.625% of the Capital Conservation Buffer has already been deferred from 30 Sep'20 to 01st Oct'21 easing a capital requirement of around ₹65000 crore at system level.

To support the states, RBI has already enhanced the Ways and Means limit from a recommended ₹47,010 crore to ₹51,560 crore for all States/ UTs and this shall continue for six months i.e., up to 30 Sep'21. Also, the number of days for which a State/ UT can be in overdraft in a quarter has been increased to 50 working days from the current stipulation of 36 working days. With varying degrees of stress in states' finances due to COVID-19, these moves will provide states with the succor to manage their borrowings.

RBI HAS ANNOUNCED MEASURES TO SUPPORT LIQUIDITY AND CREDIT TO THE STRESSED SECTORS

- Since the last monetary policy on 07 April, India has added almost 77 lakh new cases of Covid-19, an average of 2.5 lakh new cases daily and almost 60,000 deaths. This ferocious rise in infections and mortalities in India has compelled RBI to announce fresh round of measures in order to protect economy, banks and borrowers. We estimate monetary loss of almost ₹2 lakh crore till now due to this second wave of infections/lockdowns and we believe that RBI's measures today will provide some breathing space to all stakeholders.

DAILY COVID-19 INFECTIONS



Source: SBI Research

- The broad macroeconomic background for this announcement is still the one presented in the Monetary Policy Statement issues in April 2021. However, there are some concerns evident on inflation from the statement today predominately emanating from spike in global commodity prices. The normal monsoon projection for the current years is good for rural demand and overall food security situation.
- The good thing is that the loss on account of second wave is expected to be lesser as business resilience in wake of the disaster has improved. Businesses have learnt to survive despite Covid restrictions and containments.

MEASURES

- **Term Liquidity Facility of ₹50,000 crore for Emergency Health Services:** The special on-tap liquidity of ₹ 50,000 crore with tenor upto 3 years at repo rate for lending for emergency healthcare required to fight Covid crisis, to various entities like vaccine manufactures, hospitals/ dispensaries, pathology labs, manufactures and suppliers of oxygen and ventilators, importers of vaccines and COVID related drugs among others and even patients for treatment, is a move in the right direction. It will certainly help in providing support to Covid related health infrastructure and relief to ailing population. Further this amount would be classified under priority sector advances till maturity or repayment. Additionally, under this facility which can be availed till 31 Mar'21, banks can park their surplus liquidity (upto their Covid loan book) using a special liquidity window with the RBI and can earn 40 bps higher than reverse repo rate. Thus, banks who lend to these entities can also earn higher interest rate from RBI on their surplus funds. This will work as an incentive for banks to expand their loan books. Currently Banks are placing around ₹4.6 lakh crore at 3.35% in reverse repo and another ₹2 lakh crore at variable reverse repo at 3.47%.
- The macro impact of the scheme can be gauged from the fact that ₹50,000 is roughly 9% of total health expenditure of ₹ 6 lakh crore under private final consumption expenditure in 2019-20. A direct support to the sector might generate total output demand of roughly ₹80,000 crore. The sectors to benefit include organic chemicals, rubber, plastics among other where the limit utilisation is close to 55%.
- **Liquidity Support to SFBs:** To support credit to MSME sector and unorganized sector, RBI has given liquidity support of ₹ 10,000 crore to the small finance banks (SFBs), under a special three-year long-term repo operations (SLTRO) at repo rate till 31 Oct'2021. This is expected to boost liquidity support to the cash starved SFBs and may induce fresh lending of up to ₹10 lakh per borrower.
- **Lending by SFBs to MFIs for on-lending to be classified as PSL:** To give support to the small MFIs, RBI allowed SFBs to lend MFIs for on-lending (with asset size of up to ₹500 crore) under priority sector lending (PSL).
- **Relaxation in Overdraft (OD) facility for States Governments:** To support the states, RBI has already enhanced the Ways and Means limit from a recommended ₹47,010 crore to ₹51,560 crore for all States/ UTs and this shall continue for six months i.e., up to 30 Sep'21. The Reserve Bank will review the WMA limit thereafter, depending on the course of the pandemic and its impact on the economy. Also, last year when the pandemic was in its initial stage, RBI had provided greater space to State Governments/ Union Territories for availing overdraft facilities. These have been reinstated again and the number of days for which a State/ UT can be in overdraft continuously, has been increased to 21 working days from the current stipulation of 14 working days.
- Also, the number of days for which a State/ UT can be in overdraft in a quarter has been increased to 50 working days from the current stipulation of 36 working days. With varying degrees of stress in states' finance due to COVID-19, these moves will provide them the flexibility to manage their borrowings.
- **Credit to MSME Entrepreneurs:** In Feb'21 banks were allowed to deduct credit disbursed to 'New MSME borrowers' from their NDTL for calculation of the CRR. This exemption would be available only for exposures up to 25 lakh per borrower for credit extended up to the fortnight ending 1 Oct'21 for a period of one year from the date of origination of the loan or the tenure of the loan, whichever is earlier. Now RBI has extended this exemption till 31 Dec'21. If we go by ECLGS numbers, we estimate that banks will be able to lend around ₹ 30,000 crore fresh loans to MSME and estimated that banks will save CRR of ₹ 1,000 crore from the fresh loans to the MSME units.

- **Restructuring Resolution Framework 2.0:** RBI has announced the Restructuring resolution framework 2.0 for individuals, small businesses and MSME borrowers who have an aggregate exposure of upto ₹25 crore, have not availed restructuring under any of the earlier restructuring frameworks, and classified as Standard. RBI had earlier launched the one-time loan restructuring scheme, following a six months' loan moratorium, for all term loans, with a view to helping those stressed borrowers hit by the pandemic. Further for the borrowers under Resolution Framework 1.0 RBI announced extension of residual repayment window and review of working capital sanctioned limits. We believe that today's announcement will infuse fresh confidence to both banks and borrowers as business has been hitting hard in this second wave of Covid-19.
- **Utilisation of Floating Provisions and Countercyclical Provisioning Buffer:** Allowing to utilise 100% of floating provisions/countercyclical provisioning buffer held by them as on 31 Dec'20 for specific provisions for NPAs, with immediate effect and up to 31 Mar'22, is a welcome move and can be used in extraordinary times.
- Countercyclical provisioning buffers and floating provisions broadly refer to the specific amount that banks need to set aside in good times above the mandatory provisioning requirement as prescribed by RBI; these are used only in contingencies or extraordinary times of economic or system-wide downturn.
- In addition, in Sep'20 RBI has already deferred the implementation of the last tranche of 0.625% of the Capital Conservation Buffer (CCB) from 30 Sep'20 to 1 Apr'21 easing a capital requirement of around ₹65000 crore at system level, which was further extended to 01st Oct'21 in Feb'21.
- **Easing KYC Procedure**: Given the restrictions in physical movement, the easing of KYC norms by utilising the digital infrastructure is a welcome move and will pave the way in future for enhanced customer convenience and better utilisation of bank's human capital.

Contact Details:
Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone:022-22742440
:@kantisoumya