RBI Policy- August 2020

RBI Monetary Policy

Repo Rate Now at 4.0%vs. 4.0%	**Unchanged**
Reverse Repo Rate Now at 3.35%vs. 3.35%	**Unchanged**
MSFBank Rate Now at 4.25%vs. 4.25%	**Unchanged**
Policy Stance Accommodative	**Unchanged**

RBI on Growth, Inflation

FY21 GDP Growth	Negative Territory
Inflation Outlook	**To remain elevated in Q2FY21**

Rate Cut- Unchanged

MPC kept the policy repo rate unchanged to 4.0%. MPC unanimously voted for keeping the policy repo rate unchanged and continue with accommodative stance as long it is necessary to revive growth and mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains within the target. The Monetary Policy Committee (MPC) had unanimously voted in favor of rate cut in May'20 policy. ***The post Covid-19 repo rate cut now stands at 115 bps and reverse repo is down 155 bps.***

Statement on Developmental and Regulatory Policies

(i) **Additional Liquidity Facility for NHB** of ₹5,000Cr for supporting HFCs from liquidity disruptions and augment the flow of finance to the sector.

(ii) **Additional Liquidity Facility for NABARD** of ₹5,000Cr for refinancing NBFC-MFIs and other small NBFCs of asset size of ₹500Cr and less to support agriculture and allied activities and the rural non-farm sector.

(iii) **RBI decided to provide a window under the June 7th Prudential Framework to enable lenders to implement a resolution plan in respect of eligible corporate exposures - without change in ownership - as well as personal loans, while classifying such exposures as standard assets, subject to specified conditions;** an expert committee headed by veteran banker KV Kamath will oversee this matter.

A. The key features of the resolution framework for exposures to Corporate are as under:

i. Only those borrower accounts shall **be eligible** for resolution under this framework which were classified as **standard, but not in default for more than 30 days** with any lending institution **as on 01.03.20**. Further, the **accounts should continue to remain standard till the date of invocation**.

ii. The resolution plan **may be invoked anytime till 31.12.20** and shall have to be **implemented within 180 days** from the date of invocation.

iii. Lenders shall have to keep **additional provisions of 10% on the post-resolution debt**.

iv. In order to enforce collective action, specific voting thresholds are being prescribed even for invocation of the resolution plan; and those **lending institutions not signing ICA within 30 days from the date of invocation** shall attract **higher provisions of 20%**.

v. **Post-implementation**, the asset classification of the account shall be retained as **standard**, or **if** the account had **slipped into NPA after invocation but before implementation**, the asset **classification shall be restored upon implementation**.

vi. The Expert Committee shall also undertake a process validation of resolution plans for accounts above a specified threshold.

vii. The lending institutions **may allow extension of the residual tenor** of the loan, with or without payment moratorium, by a period **not more than 2yrs**.

viii. Wherever the resolution plans involve conversion of a portion of debt into equity and other debt instruments, the debt instruments with terms similar to the loan shall be counted as part of the post-resolution debt, whereas the portion converted into other non-equity instruments shall be fully written down.

ix. framework shall **not be available for exposures to** financial sector entities as well as Central and State Governments, Local Government bodies (e.g. Municipal Corporations) and any body corporate established by an Act of Parliament or State Legislature

B. Key features for Personal loans exposures

i. The resolution plan for personal loans under this framework may be **invoked till December 31, 2020** and shall be **implemented within 90 days thereafter.**

ii. The contours of the plan may be decided based on the Board approved policies of the lenders subject to **extension of the residual tenor of the loan,** with or without payment moratorium, by a period **not more than two years**

C. For MSME, the restructuring can be implemented by March, 2021 with respect to all accounts that were standard with the lender as on March 1, 2020.

RBI decided to increase the permissible LTV for loans against pledge of gold ornaments from 75% to 90% for loans sanctioned by banks against pledges.

PSL guidelines-incentive framework

i. Higher weightage will be assigned for incremental PSL in the identified districts having lower credit flow, a lower weightage would be assigned in identified districts where the credit flow is comparatively higher

ii. Startups now covered under PSL\The limits for renewable energy, including solar power and compressed bio-gas plants, are being increased

iii. Increasing the targets for lending to 'Small and Marginal Farmers' and 'Weaker Sections'

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