

# LAW & POLICY UPDATE

## BANKING & FINANCE



### RBI stimulus measures to tackle second covid wave

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#### On-tap liquidity window for contact-intensive sectors and special liquidity to SIDBI

The Reserve Bank of India (RBI) has specified a separate liquidity window of INR 15,000 crore in order to help mitigate the adverse impact of the second wave of the pandemic on certain contact-intensive sectors. This window has been opened till March 31, 2022 with tenors of up to 3 years at the repo rate.

Under the scheme, banks can provide fresh lending support to hotels, restaurants, tourism and travel operators, adventure and heritage facilities, aviation ancillary services (ground handling and supply chain) and other services such as private vehicle operators services, spa clinics and saloon. By way of an incentive, banks will be permitted to park their surplus liquidity, up to the size of the loan book created under this scheme, with the RBI under the reverse repo window at a rate which is 25 bps lower than the repo rate or, termed in a different way, 40 bps higher than the reverse repo rate.

Further, to ensure continued flow of credit to the economy, RBI had extended fresh support of INR 50,000 crore on April 7, 2021 to All India Financial Institutions (AIFIs) for new lending in financial year 2021-22. This includes:

- Special Liquidity Facility (SLF) of INR 25,000 crore to National Bank for Agriculture and Rural Development to support agriculture and allied activities, the rural non-farm sector and NBFCs
- SLF of INR 10,000 crore to the National Housing Bank to support the housing sector
- INR 15,000 crore to the Small Industries Development Bank of India (SIDBI)

#### Revision in thresholds under Resolution Framework 2.0

RBI on June 04, 2021 has issued circulars for revising the aggregate exposure threshold as set out in the Resolution Framework 2.0 extending reliefs to be made applicable to the borrowers (Individuals and Small Businesses) and MSMEs under the Resolution Framework 2.0.

The Circular for MSMEs stipulates that the threshold for the applicability of benefits under the Resolution Framework 2.0 for MSMEs shall stand revised to include all the MSME borrowers with the aggregate exposure, including non-fund-based facilities, not exceeding INR 50 crore as on March 31, 2021 from all the lending institutions, thus enhancing the erstwhile limit of INR 25 crore. Hence, all the MSME borrowers fulfilling the aforesaid criteria stand eligible for restructuring of their existing loans without a downgrade in their asset classification. Restructuring of a loan includes measures like extending the moratorium, increasing the tenure of the loan and other changes to terms of payments.

The Resolution Framework 2.0 made applicable to individuals and small business stipulates the eligibility criteria for the borrowers to avail resolution plans in respect of their credit exposures while classifying the same as standard upon implementation of the resolution plan. Vide the said eligibility criteria for the borrowers under the aforesaid Resolution Framework 2.0 stands revised to include the following under its ambit:

- Individuals having availed loans and advances for business purposes from lending institutions aggregating exposure not more than INR 50 crore as on March 31, 2021, enhancing from the erstwhile limit of INR 25 crore
- Small Business, including those engaged in retail and wholesome trade, other than those classified as MSME as on March 31, 2021, to whom the lending institutions have aggregate exposure of not more than INR 50 crore, enhancing from erstwhile limit of INR 25 crore.

#### Our viewpoint

These announcements will bring succor to the battered sectors of the economy that are characterized by close contact for their service delivery and day-to-day operations. The announcements will also enable the micro finance institutions to provide financing support to their customers and help spur an economic rebound, thereby strengthening India's momentum towards normalcy. The circulars will not only ensure smooth flow of liquidity for MSMEs at reasonable costs but will also benefit the MSMEs in long run by restructuring the account without classifying it as a non-performing asset. All in all, RBI's attempts to enable the borrowers of a larger ambit to avail reliefs and resolve their impending debts with the lending institutions efficaciously are indeed laudatory.

