

# IMPORTANT UPDATE of RBI COVID 19 MEASURES

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# COVID 19 Pandemic Impact

- ▶ Asia's third largest economy has been locked down for three weeks since March 25, 2020, putting millions of daily wage earners and lakhs of businesses in unprecedented hardship.
- ▶ Make no mistake, it is a fight never seen before, the RBI governor warned while outlining the risks to Indian economy from coronavirus today. He stressed upon the need to keep the credit flowing to the stressed areas of the economy.
- ▶ Implied GDP growth of 4.7 percent in Quarter 4 of 2019-20, within the annual estimate of 5 percent for the year as a whole is now at risk.
- ▶ Apart from continuing resilience of agriculture and allied activities, most other sectors of the economy will be adversely impacted by the pandemic depending upon its intensity, spread and duration.

# Three-way liquidity injection

- ▶ RBI Governor Shaktikanta Das said about INR 3,74,000 crore liquidity on aggregate basis will be infused into the financial system to deal with the COVID-19 pandemic: -
  - ✓ Auction of targeted long term repo operations of 3-year tenor for total amount INR 1,00,000 crore at floating rate;
  - ✓ Reduction of CRR for all banks by 100 basis points - release INR 1,37,000 crore across banking system;
  - ✓ Accommodation under Marginal Standing Facility to be increased from 2% from SLR to 3% with immediate effect till June 30. This will release INR 1,37,000 crore into the system.
- ▶ The Monetary Policy Committee (MPC) decided to reduce repo rate by 75 basis points to 4.4 per cent.
- ▶ The reverse repo rate is cut by 90 bps to 4 per cent, creating an asymmetrical corridor.

# Moratorium on Term Loans

- ▶ All lending institutions are permitted to allow 3 months moratorium on payment of instalment of term loans outstanding as on March 1, 2020;
- ▶ Lending Institutions include all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions);
- ▶ Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by three months.

*Note: This is recommended by RBI, however, we should wait for the announcements to be made by the respective lending institutions.*

# Deferment of Interest

- ▶ In respect of working capital facilities sanctioned in the form of cash credit / overdraft, lending institutions are being permitted to allow a deferment of 3 months on payment of interest in respect of all such facilities outstanding as on March 1, 2020.
- ▶ The accumulated interest for the period will be paid after the expiry of the deferment period.
- ▶ Changes in terms and conditions of loan agreements will be made due to financial difficulty faced by the borrowers amidst COVID 19 and, consequently, will not result in asset classification downgrade. The lending institutions may accordingly put in place a Board approved policy in this regard.

*Note: This is recommended by RBI, however, we should wait for the announcements to be made by the respective lending institutions.*

# Ease of Working Capital Financing

- ▶ In respect of working capital facilities sanctioned in the form of cash credit / overdraft, lending institutions may recalculate drawing power by reducing margins and / or by reassessing the working capital cycle for the borrowers.
- ▶ Such changes in credit terms permitted to the borrowers will not be treated as concessions granted due to financial difficulties of the borrower, and consequently, will not result in asset classification downgrade.
- ▶ The rescheduling of payments will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions.
- ▶ CICs shall ensure that the actions taken by lending institutions pursuant to COVID 19 announcements do not adversely impact the credit history of the beneficiaries.



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