



3RD ANNOUNCEMENT OF RBI COVID 19 MEASURES

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KEY HIGHLIGHTS

The Reserve Bank of India Governor Shaktikanta Das on May 22, 2020 announced various measures to tackle the devastating economic impact of the ongoing coronavirus-induced crisis: -

- ❖ The global economy is inexorably headed into recession;
- ❖ Inflation outlook is highly uncertain. MPC is of the view that inflation in the first half of 2020 will be firm. However, it may fall below the target of 4 percent by the third and fourth quarters;
- ❖ India seeing collapse of demand in electricity, dip in petroleum product consumption & fall in private consumption;
- ❖ Industrial production shrunk by 17% in March 2020;
- ❖ Repo rate cut by 40 bps to 4 per cent; Reverse Repo rate reduced to 3.35 per cent from 3.75 per cent;
- ❖ India's foreign exchange reserves have increased by 9.2 billion during 2020-21 from 1st April onwards. So far, up to 15th May, foreign exchange reserves stand at 487 billion US dollars.

KEY HIGHLIGHTS

RBI announces certain additional measures against the backdrop of a deteriorating outlook for economic activity.

The measures being announced are broadly outlined under four categories:

- ❖ To improve the functioning of markets and market participants;
- ❖ To support exports and imports;
- ❖ To further ease financial stress by providing relief on debt servicing and improving access to working capital; and
- ❖ To ease financial constraints faced by state governments.

1. EXPORTS AND IMPORTS

A. EXPORT CREDIT

- Increase in the period of realization and repatriation of export proceeds to India;
- Period increased from 9 months to 15 months from the date of export made up to or on July 31, 2020;
- Increase the maximum permissible period of pre and post-shipment export credit sanctioned by banks from the existing 1 year to 15 months, for disbursements made up to July 31, 2020.

B. LIQUIDITY FACILITY FOR EXIM BANK

- Extend a line of credit of INR 15,000 crore to the EXIM Bank;
- For a period of 90 days from the date of availment with rollover up to a maximum period of 1 year;
- To avail US dollar swap facility to meet its foreign exchange requirements.

C. PAYMENT FOR IMPORTS

- Time period for completion of remittances against normal imports into India from 6 months to 12 months from the date of shipment;
- Extension available on imports made on or before July 31, 2020.

2. EASING FINANCIAL STRESS

A. MORATORIUM ON TERM LOAN

- Permit lending institutions to extend the moratorium on term loan instalments by another 3 months;
- Extension period from June 1, 2020 to August 31, 2020;
- Repayment schedule, Tenor and all subsequent due dates, may be shifted by another 3 months.

B. DEFERMENT OF INTEREST

- In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions can allow a deferment of another 3 months;
- Subsequent 3 months from June 1, 2020 to August 31, 2020;
- Payment of interest in respect of all such facilities outstanding as on March 1, 2020.

C. PAYMENT OF INTEREST

- In order to facilitate Borrowers to repay the accumulated interest for deferment period on working capital facilities in one shot, lending institutions are permitted to convert the accumulated interest on working capital facilities;
- Funded interest term loan which shall be repayable not later than March 31, 2020.

2. EASING FINANCIAL STRESS

D. ASSET CLASSIFICATION

- No changes in terms and conditions of loan agreements due to financial difficulty of the borrowers and hence, will not result in asset classification downgrade;
- Rescheduling of payments on account of the moratorium/deferment will not qualify as a default;
- 90-day NPA norm shall exclude the extended moratorium/deferment period.

E. EASING OF WC FINANCING

- In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are permitted to recalculate the 'drawing power' by reducing the margins till the extended period;
- Period upto August 31, 2020;
- Lending institutions are permitted to restore the margins to the original levels by March 31, 2021;
- Lending institutions are permitted to reassess the working capital cycle of a borrowing entity up to an extended period till March 31, 2021

3. FUNTIONING OF MARKETS

A. REFINANCING FACILITY FOR SIDBI

- Special refinance facility of ₹15,000 crore to SIDBI for on-lending/refinancing;
- Advances under this facility to roll over the facility at the end of the 90th day for another period of 90 days.

B. INVESTMENTS BY FPIs UNDER VRR

- Voluntary Retention Route (VRR) introduced in March 2019 facilitates long term and stable FPI investment in debt;
- FPIs and their custodians had to adhere to the condition that at least 75 per cent of allotted limits be invested within three months;
- However due to COVID 19, an additional three months will be allowed to FPIs to fulfil this requirement.

4. DEBT MANAGEMENT FOR STATE GOVT

Consolidated Sinking Fund (CSF) of State Governments

- State Governments maintain a Consolidated Sinking Fund (CSF) with the Reserve Bank as a buffer for repayment of their liabilities;
- Relaxations to states will release an additional amount of about ₹13,300 crore;
- Relaxations will allow the State Governments to meet a larger proportion of their redemption of market borrowings falling due in the current financial year from the CSF;
- Enable the states to meet about 45 per cent of their redemptions due in 2020-21 through withdrawal from CSF;
- Come into force with immediate effect and will remain valid till March 31, 2021.

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We Look Forward to help you to achieve your business goals.

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