

MONETARY POLICY STATEMENT | 6th August 2020
Summary of key announcements and their impact on our target sectors

KEY ANNOUNCEMENTS

The Governor of the Reserve bank of India made certain key announcements after the August 2020 Monetary Policy Committee (MPC) meeting to further cushion the economy from the impact of COVID-19. The MPC voted to keep the [policy rates unchanged](#) and retained the accommodative stance. Additionally, the Governor announced several policy measures under the [Additional Development and Regulatory Policies](#).

In this note, we briefly assess each of the key policy measures announced under the “Additional Development and Regulatory Policies” relevant for our target sectors and their impact.

1. **Additional Liquidity Facility for NHB and NABARD** : An additional special liquidity facility (ASLF) of INR 5,000 crore each will be provided to National Housing Bank (NHB) and the National Bank for Agricultural and Rural Development (NABARD) for a period of one year at RBI's policy repo rate for refinancing housing finance companies and NBFCs/MFIs with asset size of INR 500 crore and less, respectively.

The additional limit of INR 5,000 crore assigned NABARD to support the small NBFCs including MFIs will not only provide liquidity to such financial institutions but also mitigate concerns on collections for the larger NBFCs who lend to them, post the moratorium being phased out in August 2020. The banks' exposure to small NBFCs is very low due to their lower credit rating. For instance, NBFCs rated lower than A- raised less than 10% of the ~INR 4,500 crore bank debt raised under TLTRO 2.0 and less than 5% of ~INR 1,100 crore bank debt raised under the PCG scheme until June 31, 2020.

Impact on NBFCs:

Liquidity	Profitability	Credit-cost
Positive	Neutral	Positive

2. **Resolution Framework for COVID-19 related stress**: A restructuring framework for MSMEs that were in default but ‘standard’ as on January 1, 2020 was already in place. The eligibility date for this scheme has been extended from January 1 to March 1, 2020

The restructuring scheme and extension of deadline of restructuring until March 2021 will allow small business loan providers adequate time for recovery and restructure the loan schedule matching the underlying cash-flows of the business. The final terms of restructuring will be recommended by the K.V. Kamath committee and is awaited which will be key monitorable to distinguish towards genuine restructuring vs ‘evergreening’ of loans.

Impact on NBFCs:

Liquidity	Profitability	Credit-cost
Neutral	Positive	Positive

3. **Review of Priority Sector Lending (PSL) guidelines**: Assigning higher weightage for incremental priority sector credit in the identified districts having lower credit flow. Broadening scope of PSL by including start-ups; increasing the limits for renewable energy, including solar power and compressed bio-gas plants; and, increasing the targets for lending to ‘Small and Marginal Farmers’ and ‘Weaker Sections’.

The revisions in PSL norms to have higher weightage on unbanked districts will improve credit flow to NBFCs who largely operate in these districts. Increasing PSL targets for lending to “Small and Marginal Farmers” and “Weaker Sections” will also increase fund allocation to NBFCs and MFIs who serve the vulnerable section of the society. However, it may

not necessarily lead to higher credit to lower rated NBFCs (lower than A- rated NBFCs) as banks are expected to prioritize higher rated NBFCs with pan-India presence.

Some of the fintech lenders if categorized under start-up definition may also receive funding support from banks under the revised PSL norms. It will help channel credit to the borrowers who would likely be deprived of bank credit through the new-age lenders.

Impact on NBFCs:

Liquidity	Profitability	Credit-cost
Positive	Neutral	Neutral

Earlier measures announced by the RBI since the lock-down were targeted to boost the liquidity in the system and prevent the liquidity crisis turn into a solvency crisis amidst the un-precedented lockdown. The August 2020 MPC meeting announcements has focused on measures to support resumption in lending activities as the economy unlocks. We expect the restructuring scheme to be a morale booster for the MSME segment. Also, the targeted liquidity to small NBFCs and review of PSL guidelines will ensure that the credit reaches the last mile.

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