National Bank Staff College
Policy Tracker Oct-Nov 2020

NABARD

I. Key highlights of Third Monetary Policy Committee meeting held from 07–09 October 2020

- Policy Repo rate under Liquidity Adjustment Facility (LAF) unchanged at 4.00 percent
- Consequently, the Reverse repo rate under LAF unchanged at 3.35 percent and the Bank Rate and Marginal Standing Facility (MSF) unchanged at 4.25 percent.
- These decisions are in consonance with the objective of achieving the medium term target for Consumer Price Index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
- CRR maintained at 3% of NDTL.
- Enhanced HTM limits in SLR investments of 22 percent extended up to 31.03. 2022 for securities acquired between 01.09.2020 and 31.03.2021. The HTM limits will be restored from 22 percent to 19.5 percent in a phased manner starting from the quarter ending 30.06.2022.
- RBI to conduct Open Market Operations (OMOs) in State Developments Loans (SDLs) comprising securities issued by states, as a special case during the current financial year, to improve liquidity and facilitate efficient pricing.

https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR533EEEDC065BFA1424F995BDC4E2AD0F0B8.PDF

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II. Interest Subvention Scheme for MSMEs- Co-operative Banks

Government of India, Ministry of Micro, Small and Medium Enterprises (MSMEs) had announced the 'Interest Subvention Scheme for MSMEs 2018' on 02.11.2018 for Scheduled Commercial Banks. GoI has since decided to include Co-operative Banks also as Eligible Lending Institutions effective from 03.03. 2020.

The scheme provides for an interest relief of 2 per cent per annum to eligible MSMEs on their outstanding fresh/incremental term loan/working capital during the period of its validity. The coverage of the Scheme is limited to all term loans / working capital to the extent of ₹100 lakh. The loan accounts on the date of filing claim should not have been declared as NPA as per the extant guidelines in force. No interest subvention shall be admissible for any period during which the account remains NPA.

The aforesaid operational guidelines for the Scheme have been further modified by the GoI as under:

a) The validity of the scheme has been extended till 31.03.2021. Accordingly, fresh or incremental term loan / working capital limit extended by co-operative banks with effect from 03.03. 2020 will be eligible for coverage under the scheme
b) Requirement of Udyog Aadhaar Number (UAN) is dispensed with for units eligible for GST. Units not required to obtain GST will either submit Income Tax Permanent Account Number (PAN) or their loan account must be categorized as MSME by the concerned bank.
c) Trading activities have also been allowed to be covered under the scheme without UAN.

https://rbidocs.rbi.org.in/rdocs/notification/PDFs/ISS5D09963F430140329CD88683ACC7707F.PDF

III. Regulatory Retail Portfolio- Revised Limit for Risk Weight- For enhancing credit flow to Small Business segment

As per the present RBI instructions, the exposures included in the regulatory retail portfolio of banks are assigned a risk weight of 75 per cent. In terms of the value of exposures, it has been prescribed that the maximum aggregated retail exposure to one counterparty should not exceed the absolute threshold limit of ₹5 crore. In order to reduce the cost of credit for the individuals and small business segment (i.e. with turnover of upto ₹50 crore), and in harmonization with the BASEL guidelines, RBI has decided to increase this threshold to ₹7.5 crore in respect of all fresh as well as incremental qualifying exposures.
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI534D0C8BAE2D3A44EB9672375CE4605C56.PDF

IV. Individual Housing Loans – Rationalisation of Risk Weights

In terms of the extant regulations on capital charge for credit risk of individual housing loans by banks, differential risk weights are applicable based on the size of the loan as well as the loan to value ratio (LTV). RBI has decided, as a countercyclical measure, to rationalise the risk weights by linking them only with LTV ratios for all new housing loans sanctioned up to 31.03.2022. Such loans shall attract a risk weight of 35 per cent where LTV is less than or equal to 80 per cent, and a risk weight of 50 per cent where LTV is more than 80 per cent but less than or equal to 90 percent. This measure is expected to give a fillip to bank lending to the real estate sector, which plays an important role in employment generation and the interlinkages with other industries, as well.
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT56BEDDD975CA624938A941CCF63BE51C70.PDF

V. On Tap TLTRO

RBI has decided to conduct on tap Targeted Long Term Repo Operations (TLTRO) with tenors of up to three years for a total amount of up to ₹1, 00,000 crore at a floating rate linked to the policy repo rate. The scheme will be available up to 31.03.2021. Liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by the entities in specific sectors over and above the outstanding level of their investments in such instruments as on 30.09. 2020.
https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR520A1E17F473D714F3DA7618DDF70E358D5.PDF

VI. Digital Payment Transactions – Streamlining QR Code infrastructure

RBI had constituted a Committee under the Chairpersonship of Prof Deepak Phatak to review the current system of Quick Response (QR) Codes in India and suggest measures for moving towards interoperable QR Codes. The report the Committee containing various recommendations was placed on the Reserve Bank website for public comments and feedback.

RBI based on the recommendations of the Prof Deepak Phatak Committee and feedback received has decided as follows:

(i) The two interoperable QR codes in existence – UPI QR and Bharat QR – shall continue as at present

(ii) Payment System Operators (PSOs) that use proprietary QR codes shall shift to one or more interoperable QR codes; the process of migration shall be completed by 31.03.2022

(iii) No new proprietary QR codes shall henceforth be launched by any PSO for any payment transaction

(iv) RBI shall continue a consultative process to standardise and improve interoperable QR codes, to enable beneficial features identified by the Phatak Committee

(v) PSOs may take initiative to increase awareness about interoperable QR codes.

The above measures are expected to reinforce the acceptance infrastructure, provide better user convenience due to interoperability and enhance system efficiency.

https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT597FAB5678F14F46359E7B535EBDE0E412.PDF

VII. Perpetual Validity for Certificate of Authorisation (CoA) issued to Payment System Operators (PSOs)

Currently, the Reserve Bank issues "on-tap' authorisation under the Payment and Settlement Systems Act, 2007 to non-banks issuing Prepaid Payment Instruments (PPIs), operating White Label ATMs (WLAs) or the Trade Receivables Discounting Systems (TReDS), or participating as Bharat Bill Payment Operating Units (BBPOUs). Authorisation (including renewal of authorisation) of such PSOs has been largely for specified periods up to five years. To reduce licensing uncertainties and enable PSOs to focus on their business and optimise utilisation of scarce regulatory resources, RBI has decided to grant authorisation for all PSOs (both new applicants as well as existing PSOs) on a perpetual basis, subject to certain conditions.

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VIII. Co-Lending by Banks and NBFCs to Priority Sector

The Reserve Bank had, in 2018, put in place a framework for co-origination of loans by banks and a category of Non-Banking Financial Companies (NBFCs) for lending to the priority sector subject to certain conditions. The arrangement entailed joint contribution of credit at the facility level, by both the lenders as also sharing of risks and rewards between them for ensuring appropriate alignment of respective business objectives. RBI has decided to extend the scheme to all the NBFCs (including HFCs), to make all priority sector loans eligible for the scheme and give greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc. The proposed framework will be called as “Co-Lending Model”. This would help to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, and is expected to improve the flow of credit to the unserved and underserved sector of the economy.

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