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TOPICS

» Further measures announced by RBI for Liquidity Management and Improving Credit Flow

In response to emerging global developments, Reserve Bank of India ("RBI") has taken a number of measures since mid-September 2008 so as to augment domestic and forex liquidity. This was to enable banks to continue to lend for productive purpose while maintaining credit quality so as to sustain the growth momentum. In light of the evolving developments both domestic and globally, RBI vide it's Press Release dated November 15, 2008 has notified further measures for enhancing rupee and forex liquidity. These measures are summarized as under:

- **Enhancing Rupee Liquidity**;
  - Special term repo facility; The special term repo facility, introduced for the purpose of meeting the liquidity requirements of Mutual Funds and Non Banking Financial Companies (NBFCs) would continue till end-March 2009. Banks can avail of this facility either on incremental or on rollover basis within their entitlement of up to 1.5% of Net Demand and Time Liabilities (NDTL).

- **Enhancing Forex Liquidity**;
  - Foreign Currency Non-Resident (Banks) deposits [FCNR(B)] Scheme

    The interest rate ceiling on FCNR(B) deposits currently stand at Libor/Swap rates plus 25 basis points for the respective currency/ corresponding maturities. This interest rate ceiling on FCNR (B) deposits has now been enhanced by 75 basis points to Libor/Swap rates plus 100 basis points with immediate effect.

  - Non-Resident (External) Rupee Accounts [NR(E)RA]

    The interest rate ceiling on NR(E)RA is set at Libor/Swap rates plus 100 basis points for US dollar of corresponding maturities. This interest rate ceiling on NR(E)RA deposits has now been enhanced by 75 basis points to Libor/Swap rates plus 175 basis points with immediate effect.

  - Housing Finance Companies

    As a temporary measure, housing finance companies (HFCs) registered with the National Housing Bank (NHB) are now allowed to raise short-term foreign currency borrowings under the approval route, subject to their complying with prudential norms laid down by the NHB.

- <u>Buy-back/Pre-payment of Foreign Currency Convertible Bonds (FCCBs);</u>

  RBI will consider proposals from Indian companies to prematurely buy back their FCCBs. The buy back should be financed by the company's foreign currency resources held in India or abroad and/or out of fresh external commercial borrowing (ECB) raised in conformity with the current norms for ECBs. Proposals in this regard will be considered under the approval route. Extension of FCCBs will also be permitted at the current all-in cost for the relative maturity;

- <u>Credit Delivery</u>;
  - At present, the export credit refinance (ECR) limit is fixed at 15 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight. The aggregate limit of ECR is currently around Rs.9,500 crore. It has now been decided to enhance the eligible limit of the ECR facility for scheduled banks (excluding Regional Rural Banks) to 50 per cent of the outstanding export credit eligible for refinance which will provide additional liquidity support to banks of an amount of about Rs.22,000 crore. The rate of interest charged on the ECR facility will continue to be the prevailing repo rate under the liquidity adjustment facility (LAF) which is currently 7.5 per cent.

  - The general provisioning requirement on standard advances for residential housing loan beyond Rs.20 lakh has been progressively increased from 0.25 per cent to 1.0 per cent, while that on standard advances in the commercial real estate sector, personal loans including outstanding credit card receivables, loans and advances qualifying as capital market exposure and non-deposit taking systemically important NBFCs has been progressively increased from 0.25 per cent to 2.0 per cent. Now it has been decided that the provisioning requirements for all types of standard assets will stand reduced to a uniform level of 0.40 per cent except in case of direct advances to agricultural and SME sector which shall continue to attract provisioning of 0.25 per cent. The revised norms will be effective prospectively, but the provisions held at present should not be reversed.

  - Risk weights on banks' exposures to certain sectors are also being revised downward in view of the current macroeconomic, monetary and credit conditions. All unrated claims on corporates shall attract a uniform risk weight of 100 per cent as against the risk weight of 150 per cent for such exposures prescribed earlier which was applicable for exposures above Rs 50 crore from April 1, 2008 and for exposures above Rs 10 crore from April 1, 2009. Claims secured by commercial real estate shall attract a risk weight of 100 per cent as against the earlier risk weight of 150 per cent. Claims on rated as well as unrated non-deposit taking systemically important non-banking financial companies (NBFC-ND-SI) shall be uniformly risk weighted at 100 per cent. As regards the claims on asset financing companies (AFCs), there is no change in the risk weights, which would continue to be governed by the credit rating of the AFCs, except the claims that attract a risk weight of 150 per cent under the new capital adequacy framework, stands reduced to a level of 100 per cent.

In case of any clarifications please contact our Knowledge Management Team.

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