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RBI's Monetary Policy Review - Speedy Credit Flow

What is the issue?

- In its monetary policy review, the RBI has taken forward its growth strategies, keeping speedy credit flow as a key priority.
- RBI's measures are likely to boost banks' lending activities and revive growth.

What are the key decisions?

- The RBI stuck to its low lending rate regime, keeping the repo rate unchanged.
- It has continued its accommodative stance during the current year and into the next financial year.
- The RBI also reiterated its commitment to ensure availability of ample liquidity.
- Based on the evolving signs of recovery, the RBI raised its GDP outlook to 10.5% in 2021-22, in sync with the Budget and IMF projections.
- RBI is awaiting the review of inflation targeting framework, currently valid till March 2021.
- Notably, inflation returned to RBI's comfort level of 6% in December 2020.
- CPI-led inflation is expected to stay at 5.2% during Q4: 2020-21, 5.2-5% in H1: 2021-22 and 4.3% for Q3: 2021-22 with risks broadly balanced.
- Amid the positive headwinds of the economy, thrust on credit flow assumes more significance.

What are the measures at enhancing credit flow?

- **NBFCs** - The targeted long-term repo operations (TLTRO) on tap scheme was introduced on October 9, 2020 for banks.

- It is now extended to non-banking financial companies (NBFCs) for incremental lending to the specified stressed sectors.
- The move comes as part of RBI's continuing thrust on credit growth diversification.
- The scheme of allowing banks to use up to 3% of net demand and time liabilities (NDTL) rising from one per cent under Marginal Standing Facility (MSF) is now extended to September 2021.
- **CRR** - The RBI began normalisation of Cash Reserve Ratio (CRR) by raising

it in phases from 3% to 3.5% from March 27, 2021, and 4% from May 22, 2021.

- When the above two measures are seen together, it is a non-disruptive seamless normalisation.
- **MSMEs** - The RBI boosted flow of formal credit to new micro, small and medium enterprises (MSMEs) that have never taken loans from banks.
- Loans up to Rs. 25 lakh granted to ‘New MSME borrowers’ from January 1, 2021 are now excluded from the purview of calculation of CRR of banks till October 1, 2021.
- This move will encourage more MSMEs to access formal bank credit.
- **Lending** - The RBI postponed implementation of last tranche of the capital conservation buffer (CCB) of 0.625% till October 1, 2021.
    - The CCB is designed to ensure that banks build up capital buffers during normal times (i.e., outside periods of stress).
    - This can be drawn down as losses are incurred during a stressed period.
- The move is to ease pressure on banks’ capital base.
- This will free banks from the need to augment additional capital, creating more space for lending.
- **NFSR** - The implementation of Net Stable Funding Ratio (NFSR) was earlier deferred till April 1, 2021, due to Covid stress.
- It is now postponed to October 1, 2021.
    - NSFR is one of the Basel Committee’s key reforms to promote a more resilient banking sector.
    - The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

- **Structural reforms** - Based upon the discussion paper on Revised Regulatory Framework for NBFCs, a separate framework for NBFC-Microfinance Institutions will be part of it.
- The objective is to harmonise the regulatory frameworks for various regulated lenders and credit companies.
- An expert committee will also be set up on primary (urban) cooperative banks.
    - This is an important credit delivery structure to explore the scope of leveraging the sector.

What is the way forward?

- Banks can play a bigger role in dispensing credit if and when the proposed Asset Reconstruction Company (ARC) shapes up and takes over the bad loans of banks.
- The RBI has aligned many initiatives to empower banks to boost credit

growth to hasten recovery.
- Implementation of the measures and inclusive action at every level should be the priority now.

Source: Business Line