

**Comments on:
RBI Relief Package
Covid 2.0 – May 2021**

Enhance fund access to healthcare sector for quick ramp up

- Given the severity of the Covid second wave, there is an immediate need to scale up the health care infrastructure across the country
- Term liquidity facility of Rs 50,000 Cr to banks for lending to the health care sector particularly the activities that support the fight against Covid including vaccine production and imports, oxygen production, infrastructure expansion in hospitals etc
- Significant incentives have been provided to the banks to step up their exposure to the healthcare sector which includes categorisation of such as priority sector and further, banks will be eligible to get additional 40 bps yield from reverse repo window equivalent to the loan outstanding amount.

OTR 2.0 to offer further flexibility to restructure smaller ticket loans

- Smaller businesses are likely to be more impacted by the fresh imposition of lockdowns in an increasing number of states
- No need however, felt by RBI to provide any blanket moratorium for Covid 2.0
- Lenders including non-banks have been permitted to restructure smaller loans of exposure less than Rs 25 Cr which are standard as on March 2021.
- Further, for loans which have already been restructured under OTR 1.0, the terms can be modified to enhance the moratorium period for a maximum of 2 years.
- In our opinion, this will not only provide significant relief to the self employed and MSME segments but will also reduce the asset quality pressures for the financial sector in the near term.

Infuse liquidity in the financial system particularly in SFBs and MFIs

- Liquidity in the financial system is expected to be maintained at a comfortable level with RBI proposing to buy Gsecs upto Rs 35,000 Cr under GSAP 1.0 in May 2021; this is expected to boost the sentiment and stabilise the bond yields.
- SLTRO of Rs 10,000 Cr at the repo rate upto 3 years for Small Finance Banks (SFBs) to be deployed for retail and micro business loans up to Rs 10 lakhs; this facility will be available upto Oct 2021 and will diversify the funding avenues for SFBs
- Additionally, SFBs have been incentivised to lend to smaller microfinance institutions (MFIs) with asset size < Rs 500 Cr by tagging such exposures as priority sector. In our opinion, this will improve access to funding and liquidity for the smaller MFIs which have been facing a fund crunch since FY21.