What's New

News Flash

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October 2018

RBI eases liquidity norms for banks allowing them to lend more to NBFCs

Background
In a bid to increase liquidity in the financial market, the Reserve Bank of India (RBI) relaxed liquidity norms for banks *vide* a circular dated 19 October, 2018.

Pursuant to Basel III norms, the RBI had introduced liquidity coverage ratio (LCR) as a standard to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets (HQLAs) to meet its short-term liquidity requirements under stressed scenarios.

Under the existing norms, the assets allowed as Level 1 HQLAs for computing the LCR of banks, *inter alia*, include within the mandatory statutory liquidity ratio (SLR) requirement, Government securities under facility to avail liquidity for liquidity coverage ratio (FALLCR) [presently 13% of a bank's net demand and time liabilities (NDTL)].

Amendment
The RBI has now permitted banks to use Government securities equivalent to the bank's incremental lending to non-banking financial corporations (NBFCs) and housing finance companies after 19 October, 2018 as Level 1 HQLAs under FALLCR within the aforesaid mandatory SLR requirement.

This relaxation is in addition to the existing FALLCR of 13% of a bank's NDTL, and is limited to 0.5% of the bank's NDTL, i.e., total of 13.5% of the bank's NDTL.

Further, banks have also been permitted to increase their exposure to a single NBFC (other than NBFCs lending to the infrastructure sector) from 10% to 15% of their capital funds.

The aforesaid liberalisations are available upto 31 December, 2018.

Key takeaway
The aforesaid regulatory relaxations by RBI may assist in easing liquidity for NBFCs from the banking system.

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