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Industry hails RBI's special liquidity facility to SIDBI for on-lending to MSMEs

By Sulekha Nair | Updated on : Friday, June 4, 2021, 2:43 PM IST

The RBI on Friday expanded the coverage of Resolution Framework 2.0 by doubling the maximum aggregate exposure threshold to Rs 50 crore for MSMEs, non-MSME small businesses and individuals for business purposes.

Announcement of on tap liquidity facility of Rs 15,000 crore will ensure credit flow to the contact intensive sectors and MSMEs including hotels, tourism, aviation, etc. which have been adversely impacted, said S S Mallikarjuna Rao, MD & CEO, PNB. "Further, resolution of stress of MSMEs has also been addressed through enhancement of exposure thresholds to Rs. 50 crore under resolution framework 2.0. Availability of NACH on all days of the week will further the financial inclusion objectives through Direct Benefit Transfer (DBT)," he said.

Status quo on policy rates maintained by the RBI is on the expected lines given inflation risk and already high liquidity in the banking system. Viral Sheth, Finance Controller, Moneyboxx Finance Ltd., a BSE listed NBFC, said, the on-tap liquidity to the tune of Rs 15,000 crore announced for contact-intensive sectors including private bus operators, car repair services, beauty parlours, saloons, event organizers is a welcome relief measure for the economy as these sectors employ a lot of people. The move would also help NBFCs as bulk of their customers are self-employed and working in these contact- sensitive sectors.

Maintaining interest rates notwithstanding inflationary pressures, is indicative of the central bank's desire to aid growth and loan demand during these tough tim, said V Swaminathan, CEO, Andromeda and Apnapaisa.

The RBI Governor's statement continued the cautionary, caliberated and need-of-the-hour stance of the RBI. Anish Mashruwala, Partner, J Sagar Associates, said the " RBI Governor's statement continued the cautionary, caliberated and need-of-the-hour stance of the RBI. Given the clear impact of COVID-19's second wave on non-urban areas, the focus on the wider local economy, especially the MSME and the mom and pop shops which are still vital to the overall fabric of India, has been a major focus of the proposed measures. Having addressed the creation and supply of liquidity, the RBI has consciously considered the need to ensure equal distribution of credit and liquidity to the particularly affected sectors.

The expectation of inflation moving within the MPC's upper range provides scope for the continuation of the accommodative policy stance for the near-term. Dr M Govinda Rao, Chief Economic Advisor, Brickwork Ratings, said, "although the RBI has lowered its GDP forecasts, the expectation of 18.5 percent growth for Q1FY22, brings some optimism." Overall, the MPC's growth and inflation estimates seem credible with an upward bias in the former, and the assurance of continuation of accommodative stance to support and nurture the growth recovery, while assuring to keep the interest rate low.

Opening a Rs 15,000 crore On-Tap Liquidity Window for the stressed contact intensive sectors is expected to provide much-needed succour, said Rajee R, Chief Ratings Officer, Brickwork Ratings. Continuing with its measures to ensure smooth liquidity management and accommodative financial conditions, RBI announced G-SAP 2.0 of Rs 1.2 lakh crores. SLF of Rs 16,000 Crore to SIDBI for on-lending and refinancing and the enhancement in limit for restructuring of loans by banks to Rs 50 crore from Rs 25 crore are welcome moves to support MSMEs, he said.

Dhiraj Relli, MD &CEO, HDFC securities said the relief given to contact intensive industries - special liquidity facility to SIDBI for on-lending to MSMEs and enhancing the exposure thresholds under resolution framework augers well to support growth impulses from those severely affected sectors. "An increase in the quantum of secondary market purchases under G-SAP 2.0 will keep benchmark yields anchored around 6 percent levels. Overall, monetary policy is on expected lines and has checked all boxes," he said.

The RBI's resolve to focus on growth, continue with policy support till growth stabilizes will help the economic recovery, said Vikash Khandelwal, CEO, Eqaro Guarantees. The GSAP 2.0 will ensure ample system liquidity and smooth government borrowing exercise. The industry-focused announcements like allowing banks to restructure MSME loans up to Rs 50 crore from Rs 25 crore earlier, Rs 15,000 crore liquidity window for the contact-intensive hospitality industries like hotel, travel, and tourism will provide relief for these affected sectors, ensure liquidity during these challenging times.

CPI inflation is expected to remain in check for 1HFY22 largely due to the base effect. However, rising input prices could see inflation inching upwards in coming quarters, said Poonam Tandon, CIO, IndiaFirst Life Insurance Company Limited. The central bank will continue with its proactive and pre-emptive approach to ensure the economy returns to growth and keeping ample liquidity to support growth – the focus is now shifting to equitable distribution of liquidity in the real economy.

Naveen Kulkarni, Chief Investment Officer, Axis Securities said the support for stressed segments through on-tap scheme for contact intensive sectors, expansion of resolution framework 2.0 by increasing limit of loans from 25 Cr to 50 Cr and special liquidity window to SIDBI will help smoothen out stress in the real economy, and this will be beneficial especially to the small borrowers and MSMEs.

RBI's move to expand the coverage of borrowers under Resolution Framework 2.0 by enhancing the overall exposure from Rs 25 crores to Rs 50 crores is expected to help a larger number of MSMEs, non-MSMEs and individuals who have taken business loans and this will reduce the delinquency rates, said Anshuman Panwar, Co-Founder of Creditas Solutions. This is a huge relief to small business owners reeling under the stress caused due to the second wave of COVID.

Abheek Barua, Chief Economist, HDFC Bank said the RBI ticked all the right boxes in terms of its response to the second wave. The announcement of GSAP 2.0 for Rs 1.2 lakh crore and the carve out for SDLs bonds in the program is likely to help ease the pressure in the bond market, especially given the higher state borrowing pressure and increase in Centre borrowings this fiscal, he added

The RBI had been proactive in using both conventional and unconventional monetary policy tools during the past about 15 months to buffer the economy from the effects of the pandemic. In today's policy, the RBI's bias to continue extending the same was evident from the initiatives such as liquidity support to contact-intensive sectors and MSMEs and small businesses, said Siddhartha Sanyal, Chief Economist and Head – Research, Bandhan Bank.

George Alexander Muthoot, Managing Director at Muthoot Finance said by leaving policy rates unchanged for sixth straight time, the RBI's decision to continue accommodative stance as long as necessary to revive growth and help sustain it on a durable basis was supported by additional measures announced today such as a separate liquidity window of Rs. 15,000 crore for certain contact-intensive sectors and enhancing exposure threshold to Rs. 50 crore from Rs. 25 crore for MSMEs, small businesses and individuals for business loan purposes under Resolution Framework 2.0.

The decision to hold rates came on the back of a difficult backdrop of slowing growth are rising inflation. The MPC upped inflation forecast for better part of FY22 by 20-30bps and lowered GDP growth forecast sharply to 9.5 percent, mainly due to lower than expected growth in H1FY22, said Anagha Deodhar – Chief Economist, ICICI Securities. This shows that the committee's priority is supporting growth recovery.

While CPI inflation forecasts have been increased, immediate demand side pressures may not be a concern due to the pandemic, said Lakshmi Iyer, CIO (Debt) & Head Products, Kotak Mahindra Asset Management Company. Inclusion of SDL is GSAP is a good move to help ease some pressure on State loans. Bond yields are likely to move in tight range and oscillate between auction supply and GSAP-led demand, she said.

Arun Kumar Nayyar, CEO, NeoGrowth Credit Pvt Ltd said RBI has maintained stability in interest rate and liquidity in the system. This will encourage the credit off-take and maintain benign interest rate scenario in the money market system. The special liquidity to SME sectors is the further boost to GDP growth for FY2022, he added.

The RBI focus on equitable distribution of liquidity is expected to solve the fund shortage crisis to an extent. Modifying the ECLGS scheme and clear instructions to banks and other financial institutions on sanctioning funds to labour intensive sectors like Real Estate is the need of the hour, said Harsh Vardhan Patodia, President, CREDAI National. Moratorium on principal and interest for 6 months and freezing of SMA classification for another year will aid revival of businesses and thus the economy.

The RBI's proactive and pre-emptive approach towards equitable distribution of liquidity for the revival and growth of the economy is appreciated said HP Singh, Chairman & Managing Director, Satin Creditcare Network Limited. With active monitoring of the situation, hastened pace of the vaccination drive and thoughtful policy interventions, we are hopeful of negating the challenges resulting from the pandemic, Singh said.