

CABINET APPROVES SPECIAL LIQUIDITY SCHEME FOR NBFCs/HFCs TO ADDRESS THEIR LIQUIDITY STRESS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has given its approval to the proposal of the Ministry of Finance to launch a new Special Liquidity Scheme for Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) to improve liquidity position of the NBFCs/HFCs.

Financial implication:

The direct financial implication for the Government is Rs. 5 crore, which may be the equity contribution to the Special Purpose Vehicle (SPV). Beyond that, there is no financial implication for the Government until the Guarantee involved is invoked. However, on invocation, the extent of Government liability would be equal to the amount of default subject to the Guarantee ceiling. The ceiling of aggregate guarantee has been set at Rs. 30,000 crore, to be extended by the amount required as per the need.

Details of the Scheme:

The Government has proposed a framework for addressing the liquidity constraints of Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) through a Special Liquidity Scheme. An SPV would be set up to manage a Stressed Asset Fund (SAF) whose special securities would be guaranteed by the Government of India and purchased by the Reserve Bank of India (RBI) only. The proceeds of sale of such securities would be used by the SPV to acquire short-term debt of NBFCs/HFCs. The Scheme will be administered by the Department of Financial Services, which will issue the detailed guidelines.

Implementation schedule:

A large public sector bank would set up an SPV to manage a stressed asset fund which would issue interest bearing special securities guaranteed by the Government of India, to be purchased by RBI only. The SPV would issue securities as per

requirement subject to the total amount of securities outstanding not exceeding Rs. 30,000 crore to be extended by the amount required as per the need. The securities issued by the SPV would be purchased by RBI and proceeds thereof would be used by the SPV to acquire the debt of at least investment grade of short duration (residual maturity of upto 3 months) of eligible NBFCs / HFCs.

Impact:

Unlike the Partial Credit Guarantee Scheme which involves multiple bilateral deals between various public sector banks and NBFCs, requires NBFCs to liquidate their current asset portfolio and involves flow of funds from public sector banks, the proposed scheme would be a one-stop arrangement between the SPV and the NBFCs without having to liquidate their current asset portfolio. The scheme would also act as an enabler for the NBFC to get investment grade or better rating for bonds issued. The scheme is likely to be easier to operate and also augment the flow of funds from the non-bank sector.

Benefits:

It has been announced in the Budget Speech of 2020-21 that a mechanism would be devised to provide additional liquidity facility to NBFCs/HFCs over that provided through the PCGS. This facility would supplement the liquidity measures taken so far by the Government and RBI. The Scheme would benefit the real economy by augmenting the lending resources of NBFCs/HFCs/MFIs.

Background:

It has been announced in the Budget Speech of 2020-21 that a mechanism would be devised to provide additional liquidity facility to NBFCs/HFCs over that provided through the Partial Credit Guarantee Scheme (PCGS). There is an urgency to implement the above Budget announcement to strengthen financial stability on account of the emerging situation of Covid-19.

VRRK/SH

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has given its approval to the proposal of the Ministry of Finance to launch a new Special Liquidity

Scheme for Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) to improve liquidity position of the NBFCs/HFCs.

Financial implication:

The direct financial implication for the Government is Rs. 5 crore, which may be the equity contribution to the Special Purpose Vehicle (SPV). Beyond that, there is no financial implication for the Government until the Guarantee involved is invoked. However, on invocation, the extent of Government liability would be equal to the amount of default subject to the Guarantee ceiling. The ceiling of aggregate guarantee has been set at Rs. 30,000 crore, to be extended by the amount required as per the need.

Details of the Scheme:

The Government has proposed a framework for addressing the liquidity constraints of Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) through a Special Liquidity Scheme. An SPV would be set up to manage a Stressed Asset Fund (SAF) whose special securities would be guaranteed by the Government of India and purchased by the Reserve Bank of India (RBI) only. The proceeds of sale of such securities would be used by the SPV to acquire short-term debt of NBFCs/HFCs. The Scheme will be administered by the Department of Financial Services, which will issue the detailed guidelines.

Implementation schedule:

A large public sector bank would set up an SPV to manage a stressed asset fund which would issue interest bearing special securities guaranteed by the Government of India, to be purchased by RBI only. The SPV would issue securities as per requirement subject to the total amount of securities outstanding not exceeding Rs. 30,000 crore to be extended by the amount required as per the need. The securities issued by the SPV would be purchased by RBI and proceeds thereof would be used by the SPV to acquire the debt of at least investment grade of short duration (residual maturity of upto 3 months) of eligible NBFCs / HFCs.

Impact:

Unlike the Partial Credit Guarantee Scheme which involves multiple bilateral deals between various public sector banks and NBFCs, requires NBFCs to liquidate their current asset portfolio and involves flow of funds from public sector banks, the proposed scheme would be a one-stop arrangement between the SPV and the NBFCs without having to liquidate their current asset portfolio. The scheme would also act as an enabler for the NBFC to get investment grade or better rating for bonds issued. The scheme is likely to be easier to operate and also augment the flow of funds from the non-bank sector.

Benefits:

It has been announced in the Budget Speech of 2020-21 that a mechanism would be devised to provide additional liquidity facility to NBFCs/HFCs over that provided through the PCGS. This facility would supplement the liquidity measures taken so far by the Government and RBI. The Scheme would benefit the real economy by augmenting the lending resources of NBFCs/HFCs/MFIs.

Background:

It has been announced in the Budget Speech of 2020-21 that a mechanism would be devised to provide additional liquidity facility to NBFCs/HFCs over that provided through the Partial Credit Guarantee Scheme (PCGS). There is an urgency to implement the above Budget announcement to strengthen financial stability on account of the emerging situation of Covid-19.

VRRK/SH

END

Downloaded from [crackIAS.com](https://crackias.com)

© **Zuccess App** by crackIAS.com