

Liquidity Window for Contact-Intensive Sectors

The Reserve Bank of India (RBI) vide its Press Release No. 2021-2022/319 dated June 04, 2021, released a statement setting out various developmental and regulatory policy measures on (i) liquidity management and support to targeted sectors; (ii) regulation and supervision; (iii) financial markets; and (iv) payment systems (referred to as "[Statement on Developmental and Regulatory Policies on June 04, 2021](#)").

As announced under the [Statement on Developmental and Regulatory Policies on June 04, 2021](#), RBI vide its Press Release No. 2021-2022/323 dated June 04, 2021 (referred to as "**On-Tap Liquidity Window for Contact-Intensive Sectors**" or "**Scheme**"), has decided to open a separate liquidity window i.e. On-Tap Liquidity Window of INR 15,000 crore for the following contact - intensive sectors:

- Hotels and restaurants;
- Tourism - travel agents, tour operators and adventure/heritage facilities;
- Aviation ancillary services - ground handling and supply chain;
- Other services that include private bus operators, car repair services, rent-a-car service providers, event/conference organizers, spa clinics, and beauty parlors/salons.

Key Highlights of the scheme of On-Tap Liquidity Window for Contact-Intensive Sectors are as follows:

1. Targeted Sector:

The following contact - intensive sectors:

- Hotels and restaurants;
- Tourism - travel agents, tour operators and adventure/heritage facilities;
- Aviation ancillary services - ground handling and supply chain;
- Other services that include private bus operators, car repair services, rent-a-car service providers, event/conference organizers, spa clinics, and beauty parlors/salons

2. Tenor:

The Scheme will remain operational from June 07, 2021 till March 31, 2022.

3. A 3-year repo contract with the requesting bank:

All the banks eligible under the Liquidity Adjustment Facility (LAF) can participate in the Scheme. Requests for funds will be made by banks in the format prescribed under the Scheme through e-mail. The RBI will aggregate all such requests received from the banks and will release funds every Monday (on the subsequent working day if Monday is a holiday) by initiating a 3-year repo contract with the requesting bank. It is to be noted that the outer limit of the funds available under the Scheme is INR 15000 crores hence, any requests from banks once the guaranteed amount is already availed will not be entertained.

The requesting banks will have to adhere to the other requirements under the LAF operations like eligible collateral and margin requirements and all the other terms and conditions as applicable to LAF operations, including facility for security substitution, will also be made applicable to the Scheme, mutatis mutandis. The requesting banks must ensure that sufficient amount of securities is available in its Repo constituent account on the date of operation.

4. Separate COVID loan book

Under the Scheme, the participating banks are expected to create a separate COVID loan book. By way of an incentive, the participating banks can park their surplus liquidity up to the size of the COVID loan book, created under this Scheme, in a special 14-day reverse repo window to be conducted on each reporting Friday between 12:30 PM and 1:00 PM. The first such operation will be held on June 18, 2021. These 14-day reverse repo operations would continue till March 31, 2022 and will be reviewed thereafter. The participating banks are required to ensure

scrupulous compliance with the above conditions prior to parking of funds in the special 14-day reverse repo window.

Furthermore, the participating banks should endeavor to lend within a reasonable period, i.e., not later than 30 days from the date of availing the funds from the RBI. There is no tenor restriction regarding lending by banks under the Scheme.

ELP COMMENT:

The policy boost by RBI in form of this Scheme is a welcome move to resolve the instability and stress been faced by certain sectors during the second wave of the covid-19 pandemic. The Scheme will enable liquidity infusion in the cash-strapped hospitality, travel, tourism and aviation ancillary services. The Scheme comes as a bonus relief for these sectors in addition to the announcement of RBI on the Resolution Framework 2.0 on May 2, 2021 for debt restructuring of stressed individuals, small businesses and MSMEs.

However, with respect to the Scheme, there are uncertainties which lingers around the fact that whether banks will be willing to lend to these sectors, given the higher risk profiles and whether the three-year duration is sufficient to recover from the financial turbulence that these sectors are undergoing. The coming times will clear the clouds of doubt, if any, around the benefits of the Scheme however, the Scheme definitely brings in a ray of hope for the hard hit hospitality, travel, tourism and aviation ancillary services sectors.

We hope you have found this information useful. For any queries/clarifications please write to us at insights@elp-in.com or write to our authors:

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