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RBI Announces Additional Liquidity Facility to Banks for Purchase of Assets from and/or onlending to NBFCs/HFCs

As articulated during the post-MPC media conference on June 6, 2019, the RBI has been closely monitoring top NBFCs/HFCs, identified on the basis of their size and credit behaviour. Over the past six months or so, the Reserve Bank has also infused adequate liquidity in to the system through OMOs, currency swaps, phased increase in Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR), etc. For more than a month now, there is surplus liquidity in the system. In the meantime, an Internal Working Group in RBI is reviewing the liquidity management framework and their recommendations are expected towards the middle of July 2019.

The Government has made the following announcement in the Union Budget 2019-20 today:

90. Non-Banking Financial Companies (NBFCs) are playing an extremely important role in sustaining consumption demand as well as capital formation in small and medium industrial segment. NBFCs that are fundamentally sound should continue to get funding from banks and mutual funds without being unduly risk averse. For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rupees one lakh crore during the current financial year, Government will provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10%.

In order to enable the banks to implement this announcement and deal with the NBFCs/HFCs issue effectively, the Reserve Bank of India will provide required liquidity backstop to the banks against their excess G-sec holdings. A [circular](#) in this regard will be issued separately. In addition to the above, the RBI has also decided to frontload the FALLCR scheduled to increase by 0.5 percent each in August and December 2019 and permit banks to reckon with immediate effect the increase in FALLCR of 1.0 per cent of the bank's NDTL, to the extent of incremental outstanding credit to NBFCs and Housing Finance Companies (HFCs) over and above the amount of credit to NBFCs/HFCs outstanding on their books as on date, which will enable the banks to avail additional liquidity of ₹ 1,34,000 crores.