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Banks avoid NBFC lending, take 50% of RBI's refinance

BY MAYUR SHETTY & PARTHA SINHA, TNN | APR 24, 2020, 12.15 PM IST

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Small non-banking finance companies continued to be shunned by banks, which availed only half of the Rs 25,000-crore refinance offered by the RBI for lending to NBFCs. This was despite the RBI's attempt to improve the market for long-term bonds. The central bank on Thursday said that it would sell short-term treasury bills and buy long-term government bonds. While this brought down the yield on 10-year G-secs by 16 basis points (100bps = 1 percentage point) to 6.06%, it did nothing to help the NBFCs.

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To provide support to NBFCs, which are excluded from the three-month moratorium extended to businesses hit by Covid-19, the RBI had opened a special facility. This was the targeted long-term repo operation (TLTRO 2.0). In this window, the RBI would offer cheap three-year funds through targeted long-term repo for up to Rs 50,000 crore. Only banks that lent to NBFCs could avail these funds with half of these reserves marked for small finance companies. In Thursday's Rs 25,000-crore TLTRO, banks applied for only Rs 12,800 crore.

Since the Covid-19 outbreak, the RBI has opened the liquidity tap, leaving banks with nearly Rs 7 lakh crore of surplus funds. By not availing of TLTRO 2.0, banks are sending a signal that they are wary of credit risks. A day before announcing 'Operation Twist' on Thursday, banks bought a record Rs 45,000 crore of government treasury bills at rates below the RBI's reverse repo rate of 3.75%.

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