

Pursuant to the announcement made in the [Statement on Developmental and Regulatory Policies of February 6, 2020](#), the Reserve Bank issued a [circular on February 10, 2020](#) advising banks that an amount equivalent to incremental credit outstanding from the fortnight beginning January 31, 2020 and up to the fortnight ending July 31, 2020 will be eligible for deduction from NDTL for the purpose of computing CRR for a period of five years from the date of origination of the loan or the tenure of the loan, whichever is earlier. Some banks have sought clarifications with regard to issues like computation of incremental credit and segments eligible for exemption, among others. At the outset, it is clarified that the exemption is available on equivalent incremental credit to three segments (retail loans to automobiles, residential housing and loans to MSMEs) which is based on the difference between outstanding credit to these segments as on January 31, 2020 and subsequent fortnights up to July 31, 2020. Key queries raised and our responses thereto are set out below:

Sr.No.	Query	Clarification
1.	How to compute equivalent amount of incremental credit that can be deducted/exempted from the NDTL for the purpose of CRR?	The outstanding retail loans to automobiles, residential housing and loans to MSMEs (hereafter called as the specified segments) as on every reporting Friday beginning reporting February 14, 2020 and up to the reporting Friday ending July 31, 2020, will be deducted from the outstanding credit to the respective segments as on January 31, 2020. If the difference between the outstanding credit is positive, the equivalent amount of difference be deducted from NDTL for the purpose of CRR maintenance. If the difference in credit to any of the specified segment is negative, it should be ignored. The incremental credit will be calculated segment-wise (see example at Annex 1).
2.	Whether factoring units of MSMEs discounted under the 'Trade Receivables Discounting System (TReDs) are eligible for exemption/deduction?	Yes.
3.	For how long such deductions/ exemptions are allowed?	The amount of incremental credit as on July 31, 2020 (over the outstanding credit as on January 31, 2020) will be reduced to the extent of repayments and NPAs and the net amount of incremental credit will be eligible for the benefit of deduction from NDTL for a maximum period of 5 years, i.e., up to the

		fortnight ending January 24, 2025, or the tenure of the loan, whichever is earlier.
4.	Any specific format to be kept for Audit Purpose by RBI.	No. Information maintained by banks should enable supervisory verification.

Annex 1

Outstanding Credit (Rs. Crore)	Retail loans for automobiles	Retail loans for residential housing	Loans to MSMEs
A. As on January 31, 2020	150	120	130
B. As on reporting Friday of February 14, 2020	180	110	150
C. As on reporting Friday of July 31, 2020	500	480	110
Scenario 1 Incremental Credit for the reporting Friday of February 14, 2020 (B – A)	30	(-)10	20
Scenario 2 Incremental Credit for the reporting Friday of July 31, 2020 (C – A)	350	360	(-)20
Scenario 3 (say after 2 years)			
D. Incremental credit (same as on July 31, 2020)	350	360	(-)20
E. Repayments	50	60	50
F. NPAs for incremental credit	40	10	10
Incremental Credit (D-E-F)	350-50-40=260	360-60-10=290	(-)20-50-10= (-)80

In scenario 1, the incremental credit to specified segments eligible for deduction from the NDTL of February 14, 2020 would be Rs. 50 crore (Rs. 30 crore for retail loans to automobiles + Rs. 20 crore loans to MSMEs. The negative difference of Rs.10 crore in respect of retail loans to residential housing should be ignored.

In scenario 2, the incremental credit to specified segments eligible for deduction from the NDTL of July 31, 2020 would be Rs. 710 crore (Rs. 350 crore for retail loans for automobiles + Rs. 360 crore to retail loans for residential housing). The negative difference of Rs. 20 crore in respect of loans to MSMEs should be ignored.

In scenario 3, total incremental credit to the specified segments eligible for deduction from the NDTL would be Rs. 550 crore (Rs. 260 crore for retail loans to automobiles + Rs.290 crore to retail loans for residential housing). The negative difference of Rs. 80 crore in respect of loans to MSMEs should be ignored.