Seventh Bi-monthly Monetary Policy Update, 2019-20

March, 2020

In view of the COVID -19 pandemic, the MPC decided to advance its meeting. Outcome of the Seventh bi-monthly monetary policy was in line with market expectation. The Monetary Policy Committee (MPC) decided to cut the key policy repo rate by 0.75basis.The MPC decided to maintain the accommodative monetary policy stance as long as it is necessary to revive growth, while ensuring inflation remained within target.

Key outcome:

- The policy repo rate under the liquidity adjustment facility (LAF) was reduced by 0.75bps to 4.40% from 5.15% with immediate effect.
- Consequently, the reverse repo rate under the LAF was reduced by 0.90bps to 4% from 4.90%,

Measures to Expand Liquidity To Ensure Smooth Functioning Of Financial Institutions:

- Cash reserve ratio was reduced by 100bps from 4% to 3% beginning March 28, for one year. This will release liquidity of Rs.1,37,000 crore across the banking system.
- RBI will conduct auctions of Target long term repo operation(TLTRO) of up to three-year tenor of appropriate sizes for a total amount up to Rs. 1 lakh crore at a floating rate, linked to policy repo rate. First TLTRO action of Rs 25,000Cr will be conducted later today.
- Liquidity availed under this by banks have to be deployed in commercial papers, investment-grade corporate bonds and non convertible debentures, over and above their investment in these as of March 25, 2020.
- Investments made by banks under this facility will be classified held-to-maturity (HTM) even in excess of 25 percent of total investment permitted in HTM portfolio.
- MSF raised statutory liquidity ratio from 2% to 3% with immediate effect. Applicable up to June, 30 2020. These three measures relating to TLTRO, CRR and MSF will inject a total liquidity of Rs.3.74 lakh crore to the system.

Measures on Regulation and Supervision:

- All lending institutions (Commercial Bank, regional rural bank, Co – operative bank, all – india financial institution, NBFC, HFC, Micro finance institution) are being permitted to allow a moratorium of three months on repayment of installments for term loans outstanding as on March 1, 2020. (All the retail loans including EMIs are eligible form 3 month moratorium).
- The moratorium on deferment of payment of term loans will not lead to asset classification downgrade.
- Lending institutions permitted to allow deferment of three months on payment of interest w.r.t all such working capital facilities outstanding as of March 1, 2020.
- The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times. Considering the potential stress on account of COVID-19, it has been decided to defer implementation of last tranche of 0.625% of capital conservation buffer to Sept 30, 2020.

- Deferring of interest payment on working capital will also not result in asset classification downgrade.
- Banks in India that operate IFSC banking units allowed to participate in offshore Non-deliverable Rupee derivative Markets.

GDP & Inflation Outlook: MPC refrained from giving specific growth and inflation numbers as outlook is uncertain.

Conclusion:

A day after finance minister Nirmala Sitharaman released a Rs.1.7 lakh crore package to combat the impact of the 21-day coronavirus lockdown, Reserve Bank of India (RBI) Governor Shaktikanta Das today cut interest rates by 75 basis points to 4.4%. He also announced several measures to inject Rs.3.74 lakh crore liquidity into the system. Further, MPC also allowed a moratorium of three months on repayment of installments for term loans outstanding as on March 1, 2020. Also, Deferment of interest payment on working capital for corporates. We believe the RBI has delivered a fairly comprehensive package to addresses multiple challenges. The measures announced by the RBI augurs well for individual as well as for corporates across the sectors at the time of lockdown scenario.

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