

First Bi-monthly Monetary Policy Update, 2020-21

May, 2020

In view of the Covid -19 pandemic, the MPC decided to advance its meeting. Outcome of the First bi-monthly monetary policy was in line with market expectation. The Monetary Policy Committee (MPC) decided to cut the key policy repo rate by 40basis point. 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 40bps to 4.00% from 4.40% with immediate effect.
- Consequently, the reverse repo rate under the LAF was reduced by 40bps to 3.35% from 3.75%.

Regulatory Measures:

- In view of extension of lockdown, the provisions for moratorium on term loan repayments are being extended by another 3 months. This makes it a six month moratorium. Accumulated interest of 6 months can be converted into term loan. The converted term loan does not have to be repaid immediately.
- RBI permits banks to extend margins on working capital facilities to original levels by March 31.
- Group exposure limit of banks to be increased from 25 percent to 30 percent of eligible capital base till June 30, 2021.
- Rs.15, 000 crore facility created for SIDBI to be extended by another 90 days.
- To extend line of credit of Rs.15, 000 crore to EXIM Bank for 90 days.
- Maximum permissible period of pre-shipment and post shipment export credit to be extended to 15 months.
- To extend time period for outward remittances for normal imports from 6 months to 12 months.

GDP & Inflation Outlook:

- The MPC gave a directional inflation guidance instead of one with levels, citing complications due to partial release of data by the NSO.
- MPC is of the view that headline inflation could stay firm in first half of 2020, but soften thereafter
- GDP growth in 2021 is estimated to remain in negative territory.

Conclusion:

In his third such address since the coronavirus-induced lockdown began on March 25, Reserve Bank of India (RBI) Governor Shaktikanta Das today cut the repo rate by 40 basis points to 4% and also extended moratorium on all term loans by another 3 months. The loan moratorium has now been extended till August 31 for 6 months. Also, Accumulated interest for moratorium period can be converted into a term loan, doesn't have to be repaid immediately after moratorium ends. We believe the measures around moratorium, reduction in interest rates will facilitate the flow of funds at affordable rates and the revival of the economy. On GDP front, growth in 2021 is estimated to remain in negative territory however recovery in economic activity is expected in H2FY21. The minutes of the MPC's meeting will be published by June 5, 2020.

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