

RBI Monetary Policy measures to tackle the COVID-19 Pandemic

- **Repo rate slashed by 75 bps to 4.4% and reverse repo rate by 90 bps to 4%**
- In order to infuse liquidity into the system, **RBI to conduct long term repo auctions amounting to Rs1 trillion** and the said amount has to be invested by the banks into investment grade corporate bonds, commercial paper and non-convertible debentures over and above the outstanding level of their investments. The said investments can be included in the HTM category
- Reduction in the CRR by 100 bps to 3% of NDTL – This reduction will infuse Rs1.37 trillion of primary liquidity into the system
- To increase the accommodation under the marginal standing facility (MSF) from 2% of the statutory liquidity ratio (SLR) to 3%. This measure will infuse further liquidity into the system by Rs1.37 trillion.
- These three measures relating to TLTRO, CRR and MSF will inject a total liquidity of Rs3.74 trillion to the system
- **Widening of monetary policy rate corridor** - The reverse repo rate under the LAF would be 40 bps lower than the policy repo rate as against existing 25 bps.
- **Moratorium on Term Loans – All commercial banks (including regional rural banks, cooperative banks, all India financial institutions) and NBFCs** are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020.
- **Deferment of Interest on Working Capital Facilities** - Working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are being permitted to allow a deferment of three months on payment of interest on all such facilities outstanding as on March 1, 2020
- **More importantly**, moratorium on term loans and the deferring of interest payments on working capital will not result in asset classification downgrade.
- **Easing of Working Capital Financing** - by reducing margins and/or by reassessing the working capital cycle for the borrowers
- **Deferment of Implementation of Net Stable Funding Ratio (NSFR)** by 6 months to Oct1, 2020
- **Deferment of Last Tranche of Capital Conservation Buffer** of 0.625% by 6 months to Sep 30, 2020
- **Permitting Banks** (which operate International Financial Services Centre (IFSC) Banking Units (IBUs)) **to Deal in Offshore Non-deliverable Rupee derivative Markets (Offshore Rupee NDF Markets)**

Conclusion -

RBI has used all its instruments in order to revive the economy and infuse liquidity into the system – all the measures put together will inject liquidity into the system amounting to Rs3.7 trillion resulting in higher transmission into bond and credit markets. We expect banks to respond swiftly by reducing their lending rates. Demand for the loans is not expected to revive immediately, however, once the dust settles on Covid-19, demand should come back. More importantly, moratorium on retail loans including car loans, home loans and personal loans for upto 3 months starting April is huge positive, otherwise, large part of the loans would have turned NPL – positive for all banks and NBFCs. Moratorium on term loan is also a big positive.

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