Fact Sheet: Monetary Policy
May 2020

RBI reduces repo rate by 40 basis points, eases regulations further

- *RBI preponed its Monetary Policy announcement yet again, from the earlier scheduled date of June 5, 2020 to May 22, 2020, in light of weak macroeconomic conditions*
- *The repo rate has been cut by 40 bps to 4.0 per cent from 4.4 per cent with immediate effect and the reverse repo rate under the LAF stands reduced to 3.35 per cent*
- *The marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.25 per cent from 4.65 per cent*
- *Accommodative stance of monetary policy to be maintained as long as necessary to revive growth, mitigate the impact of COVID-19, while ensuring that inflation remains within the target*
- *RBI is committed to preserve financial stability, ensure universal access to finance and ensure smooth functioning of financial markets*

Key Rates

Key rates	Feb - 2020	March-2020	April 2020	May-2020
Repo rate	5.15%	4.40%	4.40%	4.00%
Reverse repo rate	4.90%	4.00%	3.75%	3.35%
MSF	5.40%	4.65%	4.65%	4.25%
CRR	4.00%	3.00%	3.00%	3.00%
SLR	18.25%	18.25%	18.25%	18.0%
Bank rate	5.40%	4.65%	4.65%	4.25%

Country	Policy Rate	Last Change	Date of announced Change
United Kingdom	0.10	-0.15	March 19, 2020
United States	0.0-0.25	-1.00	March 15, 2020
China	3.85	-0.20	April 20, 2020
Philippines	2.75	-0.50	April 16, 2020
Thailand	0.50	-0.25	May 20, 2020

Reserve Bank of India: Growth & Inflation Outlook

The Monetary Policy Council reiterated inflation outlook to be highly uncertain and refrained from projecting a number until a time some amount of certainty is returned. Supply shock to food prices is expected to persist over the next few months. Elevated price levels of pulses remain a pressure point and must be addressed by offloading some supplies from the Food Corporation of India.

Growth situation, on the other hand, was acknowledged to be grave at present. The combined impact of weak demand and disrupted supply is anticipated to severely impact economic activity in the first half of FY21. Consequently, amidst high uncertainties, the RBI has forecasted FY21 growth to remain in the negative territory. This outlook came on the back of significant downside risks including the time frame for containing the pandemic and phasing out of social distancing and lockdowns.

Nonetheless, if economic activity was restored in the second half, combined effect of fiscal and monetary policies are likely to create an enabling environment for a gradual recovery.

Source: RBI's Monetary Policy Statement, May 22, 2020
Various press articles

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Regulatory & Developmental Announcements- May 22, 2020

Improving Functioning of Markets

- Extension of special refinance facility of ₹15,000 crore to SIDBI for another 90 days
- Additional three months time allowed to FPIs to adhere to mandatory allotment limits

Support to Exports & Imports

- Maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks increased to fifteen months from one year
- Line of credit of ₹15,000 crore extended to the EXIM Bank for a period of 90 days (with rollover up to one year)
- Time period for completion of outward remittances against normal imports into India extended from six months to twelve months from the date of shipment for imports made on or before July 31, 2020

Easing Financial Stress

- Measures to ease financial stress announced previously (including 3 months moratorium on term loan installments, deferment of interest, exemption from being classified as a defaulter, asset classification standstill , etc.) extended by another three months from June 1, 2020 till August 31, 2020
- Reassessment of working capital cycle being extended up to March 31, 2021
- Conversion of accumulated interest on working capital facilities over the total deferment period of 6 months into a funded interest term loan allowed; to be fully repaid by March 31, 2021
- Group exposure limit of banks increased from 25 per cent to 30 per cent of eligible capital base

Debt Management

- Rules governing withdrawal from Consolidated Sinking Fund of State Governments relaxed. This measure will enable the states to meet about 45 per cent of the redemptions of their market borrowings, due in 2020-21.

Source: *RBI's Monetary Policy Statement, May 22, 2020*

FICCI's Comments

The measures announced today are welcome and add to the continuous interventions that are the need of the hour. Cut in the policy repo rate by RBI by another 40 basis points should enable banks to cut lending rates further. FICCI hopes that the transmission this time will be quick and to the full extent, including the rate cuts that were introduced earlier. Besides the cut in the repo rate, FICCI is happy to note that RBI extended the period for moratorium on loan and interest payments by another three months till August 2020. This was a point that was continuously highlighted by FICCI given the significant disruption in the economic activity levels in the country and globally. The initial three-month moratorium period was certainly not sufficient for providing a cushion to our companies.

In addition, permission to convert accumulated interest over the moratorium period into a Funded Interest Term Loan is very encouraging. FICCI was persistently advocating for this as it would have otherwise been difficult for companies to make the accumulated interest payment soon after the moratorium period ended. The relaxation in the group exposure norms for banks from 25% to 30% was another positive and should help some of the larger companies that were hitting this target in terms of their bank financing limits.

FICCI would once again urge RBI to permit banks to do one-time restructuring of loans for companies with the right to recompense later. This is critical if we have to avoid seeing a collapse of businesses across sectors and sizes. Additionally, there is an imperative need to provide for a covid liquidity bridge to support restructuring/ additional loan requirement of large companies whose balance sheets have got impaired due to covid. This will have a huge positive impact on the entire supply chain of these companies including many small and mid-sized vendors, which otherwise may not survive the current crisis. FICCI would also like to see a special package being announced for some of the most battered sectors of the economy such as airlines, airport developers, hospitality and tourism, retail and healthcare sector, which have seen a sizable demand destruction and for whom recovery is a distant horizon. With the outlook for economic growth remaining uncertain, FICCI feels that more support will be required on an ongoing basis both from RBI and government.