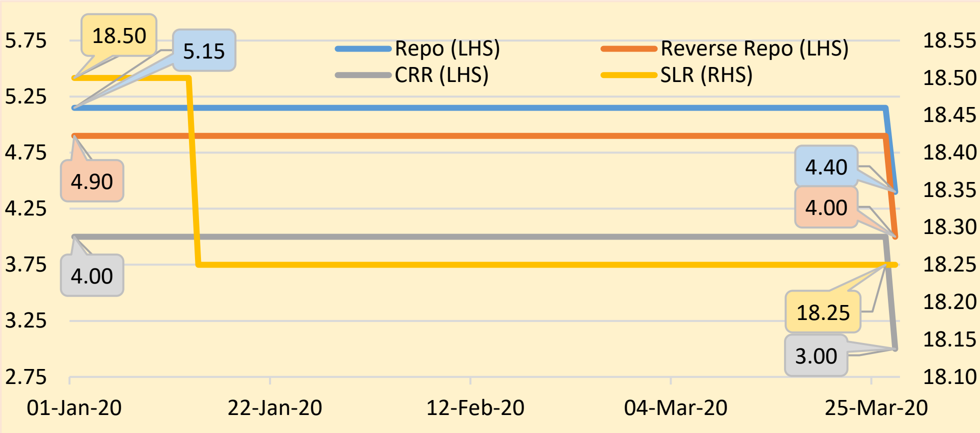
27 March 2020

RBI Liquidity Boost

Key Announcements:

- Repo rate cut by 75bps to 4.4% from 5.15%.
- Reverse repo cut by 90bps bps to 4% thereby widening the policy rate corridor.
- Cash Reserve Ratio (CRR) reduced by 100bps to 3% of Net Demand and Time Liabilities (NDTL) for period of 1 year.



Liquidity Boost: Measures listed below along with recent measures amount to liquidity infusion of Rs 6.54 lakh crore (3.2% of GDP).

RBI Measures	Liquidity Impact (Rs lakh crs)
CRR reduction	1.37
Long Term Repo Ops	1.00
MSF limit hike	1.37
Total	**3.74**
Earlier Measures	2.80
Grand Total	**6.54**
As % of GDP	**3.20%**

❖ Cash Reserve Ratio (CRR) reduced by 100 bps to 3% of Net Demand and Time Liabilities (NDTL) for period of 1 year which will release Rs 1.37 lakh crore worth of liquidity in the banking system.

❖ Minimum daily CRR maintenance reduced to 80% from 90% (up to June'20).

❖ Targeted Long Term Repo Operations (TLTRO)* of 3-year tenor up to Rs 1 lakh crore. The rate will be floating and linked to the policy rate. All borrowing in TLTRO to be invested in bonds/CP.

❖ Marginal Standing Facility (MSF)* limit raised from 2% of SLR to 3% of SLR effective immediately till end June which will release additional liquidity of Rs 1.37 lakh crore.

Regulatory easing: Besides the above measures to boost liquidity, RBI announced regulatory measures to accommodate corporate India as their near term cash flows are likely to adversely impacted.

• Moratorium on term loans (for all lending financial institutions including regional rural banks, small finance banks, NBFC including HFC, microfinance) are being permitted to allow a three-month moratorium on payment of instalments in respect of term loans outstanding as of 31-Mar-2020.

• With respect to working capital facility in form of cash credit and overdraft, all lending institutions can allow interest deferment of up to three months. The accumulated interest should be paid after three months.

• Moratorium and deferment of interest should not result in asset reclassification downgrade. This should not qualify as a default under supervisory ratings and hence won't impact the credit rating of the borrower adversely.

27 March 2020

Outlook

- The large liquidity infusion and rate cut will lower rates as well as ease liquidity issues for banks which would be passed on.

- Lower yields can make it relatively unattractive for banks to park money in Reverse Repo and lend to productive sectors.

- Liquidity availed TLTRO has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020. Investments made by banks under this facility will be classified as held to maturity (HTM)- <u>This will incentivize the banks to buy good quality AAA corporate & PSU bonds and provide liquidity in the corporate debt markets</u>.

- After today's policy meeting, the RBI has through conventional - SLR, CRR, Repo & Reverse Repo and unconventional tools - MSF, LTRO, has been able to bring in the much needed liquidity in the system thereby bringing the yields that were elevated by 100 -200 bps gradually down. <u>Thus, we continue to reiterate our approach to remain on the shorter end of the curve with funds having high quality of papers.</u>

***Terminology explained:**

- **Cash reserve Ratio (CRR)** is the amount of **funds (Cash)** that the banks have to keep with the **Reserve Bank of India (RBI).** This helps to regulate the **liquidity in the economy**.
- **Statutory liquidity ratio (SLR)** is the reserve requirement that commercial banks are required to maintain in the form of **cash, gold reserves, RBI - approved securities** before providing credit to the customers. This helps to regulate the **credit growth in the economy**.
- **Repo rate** is the **rate at which the RBI lends money to commercial banks** in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation.
- **Reverse repo rate** is the **rate at which the RBI borrows money from commercial banks** within the country. It is a monetary policy instrument which can be used to control the money supply in the country.
- **Marginal Standing Facility (MSF)** rate refers to the rate at which the **scheduled banks can borrow funds overnight from RBI against government securities**. MSF is a very short term borrowing scheme for scheduled commercial banks.
- **Long Term Repo Operation (LTRO)** is a tool under which the central bank provides **one-year to three-year money to banks at the prevailing repo rate**, accepting government securities with matching or higher tenure as the collateral.

27 March 2020

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27 March 2020

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