



RBI Policy Measures

RBI's Stance

Accommodative

Key Announcements:

- The RBI's MPC has unanimously decided to keep the repo rate unchanged at 4.00% and to continue with the "Accommodative" stance.
- All the other Policy Rates and the Reserve ratios were kept unchanged.
- Allow a special window for eligible MSMEs, corporate and personal loans to be restructured.
- A relaxation on loan-to-value (LTV) ratio for gold loans from 75% to 90%.

Policy Rates / Reserve Ratio	Current
Repo Rate	4.00%
Reverse Repo Rate	3.35%
MSF	4.25%
Bank rate	4.25%
CRR	3.00%
SLR	18.00%

Growth & Inflation Outlook by RBI:

- The MPC expects headline inflation to remain elevated in Q2:2020-21, but likely to ease in H2:2020-21, aided by favourable base effects. Being cognizant of its inflation target and due to uncertain CPI outlook, the MPC decided to stay put on the policy rates.
- Economic activity in India has started to recover and Kharif sowing suggests recovery in rural economy may be robust. For 2021, real GDP growth is expected to be negative.
- ❖ India's foreign exchange reserves have increased by US\$ 56.8 billion in 2020-21 so far (April-July) to US\$ 534.6 billion (as on July 31, 2020) equivalent to 13.4 months of imports.

Additional Measures

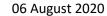
RBI Announced a host of additional measures to combat the impact of coronavirus:

- 1. Rs. 5,000 cr will be provided at the Repo rate to each NABARD (Rs. 25,000 cr given earlier) & NHB (Rs. 10,000 cr given earlier) to support NBFCs, MFIs & HFCs.
- 2. Under the backdrop of the stress tests conducted by the RBI show that under the baseline scenario, where growth is assumed at -4.4%, the gross NPA ratio may rise to 12.5% and in a severe stress scenario of 8.9% contraction in the economy, the gross NPA ratio may rise to 14.7%, the RBI announced a **one-time restructuring of corporate loans.**
- 3. A restructuring framework for MSMEs that were in default but 'standard' as on January 1, 2020 is already in place. Stressed MSME borrowers will be made eligible for restructuring their debt under the existing framework, provided their accounts with the concerned lender were classified as standard as on March 1, 2020.
- 4. Banks can now lend up to 90% of the gold ornaments & jewellery value, up from the existing limit of 75%. The RBI increased the LTV (loan-to-value) ratio on gold loans to provide relief to borrowers looking to take gold loans to mitigate the financial exigencies caused by the pandemic.
- 5. As a measure to boost to corporate bond market, banks investment in **debt MFs and debt ETFs will be treated consistently with direct debt investments** in terms of capital allocation
- 6. To address regional disparities, **priority sector guidelines will be reviewed** and incentive-based framework will be put in place.



Outlook

- There were mainly two reasons why the MPC decided to keep the rates unchanged first inflation being above the upper tolerance limit of the RBI since the past 3 months upto June and second the committee has already slashed the rates by 115 bps since the outbreak of the COVID crisis and the transmission by banks to the customers is still to kick in fully. The Governor stated that though there is space for further monetary action but it is advisable to be judicious and the MPC will remain watchful w.r.t. inflation dynamics, to further use space available on monetary side when appropriate.
- ❖ With respect to restructuring of loans the rating agencies are of the view that while it could postpone the recognition of stress in the lender book in the near-term, high share of such assets would be a credit negative.
- On the announcement of restructuring of loans which was an industry demand the equity market rejoiced while the bond markets remained flat.
- Today's policy has made it clear that it the **RBI that has a material role to play** in the current scenario where there is excess liquidity in the market and RBI is using the **reverse repo** window to manage liquidity in the system making the repo rate is irrelevant for the time being.
- Over the period of the COVID crisis the spreads between the corporate bonds and the respective tenure gilt has reduced considerably on the shorter end leaving very little room for the yields to fall. Besides the interest rate are likely to remain range bound in the near future. Thus, we continue to reiterate our approach to remain on the shorter end of the curve with funds having high quality of papers.





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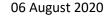
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