

Boosting liquidity and transmission in the system

Rates Change ↓

Growth Outlook ↓

Inflation outlook ↓

Monetary Rates	Feb-20	Mar-20
Repo Rate	5.15	4.40
Reverse Repo	4.90	4.00
MSF	5.40	4.65

Key Highlights

❑ **Monetary Policy Committee taking into consideration the pandemic decided to pre-pone the meeting by a week. The policy decided to cut the repo rate by 75 bps in view of the evolving macro economic situations.** Simultaneously, the reverse repo rate was reduced by 90 bps to discourage banks from parking the money with the RBI and ensuring liquidity & credit transmission in the economy.

❑ The RBI also highlighted on a few methods to increase the credit flow in the economy and also manage the load on banks as well as loan availers.

❑ Liquidity measures:

❑ **Targeted Long term repo operations** to conduct auctions of 1,00,000 crore at a floating rate which needs to be deployed in corporate bonds and commercial papers.

❑ The RBI has also downsized the **Cash Reserve Ratio** by 100 bps to 3.00. This would result in an increased liquidity of 1,37,000 crores across the banking system which can be deployed as credit in the economy.

❑ To ease the liquidity flow in the market the RBI also decided to increase the **accommodation under MSF** from 2% to 3% which will comfort the banking system with an additional 1,37,000 crore. All three of these measures will bring in fresh liquidity of 3.74 lakh crore in the economy.

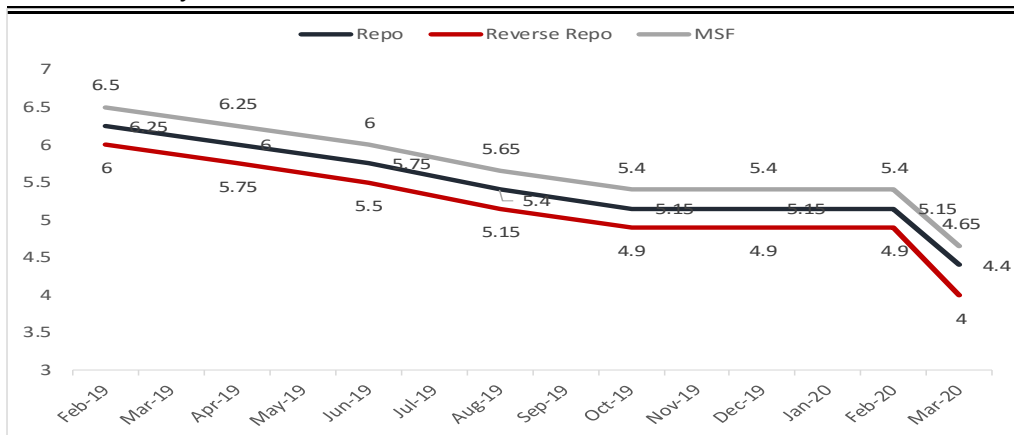
❑ **Regulation & Supervision to ensure easier credit flow** by providing a moratorium of 3 months on term loans and not classify them as bad assets in this period. Alongside the interest payments on working loan have been deferred and the working capital financing will be eased.

❑ The RBI refrained from providing any future growth or inflation projections due to the ever changing dynamics in the economy. Any comments cannot be made unless the intensity and duration of the pandemic are known.

❑ The 10 year bond yield fell to a 10 year low at 5.983 before rising to 6.12. Alongside short term yields on AAA rated papers also saw a decline.

❑ The liquidity measures by the RBI will help in de-freezing the credit and

Exhibit: Monetary rates



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RBI Credit Policy

Date	Rate Action	Inflation outlook			Growth outlook		
		tone	year	rate	Bullish	FY18	7.40%
5th April 2018	No action	Dovish	H2 18	4.5	Bullish	FY19	7.30%
			H1FY19	4.7-5.1		H1	7.30%
			H2FY19	4.4		H2	7.40%
6th June 2018	Rate hike 25bps	Hawkish	H1FY19	4.8-4.9	Neutral	FY19	7.50%
			H2FY19	4.7		H1	7.4%
1st August 2018	Rate hike 25bps	Hawkish	H1FY19	4.6	Neutral	FY19	7.40%
			H2FY19	4.8		H2	7.30%
			Q1FY20	5.0		Q1FY20	7.50%
5th October 2018	No action	Hawkish	H1FY19	4.0	Bullish	Q1FY20	7.40%
			H2FY19	3.5-4.5		FY20	7.40%
			Q1FY20	4.8			
5th December 2018	No action	Hawkish	H2FY19	2.7-3.2	Neutral	FY19	7.40%
			H1FY20	3.8-4.2		H1FY20	7.50%
7th February 2019	Rate cut 25 bps	Dovish	Q4FY19	2.8	Neutral	FY20	7.40%
			H1FY20	3.2-3.4		H1FY20	7.2-7.4
			Q320	3.9		Q3FY19	7.50%
4th April 2019	Rate cut 25 bps	Dovish	Q4FY19	2.4	Neutral	FY20	7.20%
			H1FY20	2.9-3.0		H1FY20	6.8-7.1
			H2FY20	3.5-3.8		H2FY20	7.3-7.4
6th June 2019	Rate cut 25 bps	Dovish	H1FY20	3.0-3.1	Neutral	FY20	7.00%
			H2FY20	3.4-3.7		H1FY20	6.4-6.7
						H2FY20	7.2-7.5
7th August 2019	Rate cut 25 bps	Dovish	Q2FY20	3.1	Cautious	FY20	6.90%
			H2FY20	3.5-3.7		H1FY20	5.8-6.6
						H2FY20	7.3-7.5
5th December 2019	No action	Dovish	H2FY20	5.1-4.7	Cautious	FY20	5.00%
			H1FY21	4.0-3.8		H2FY20	4.9-5.5
						H1FY21	5.9-6.3
7th February 2020	No action	Dovish	H1FY21	5.4-5.0	Neutral	FY20	5.00%
			Q3FY21	3.2		H1FY21	5.9-6.3
27th March 2020	Rate Cut by 75 bps						

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