

Further rate cuts on dim future growth outlook

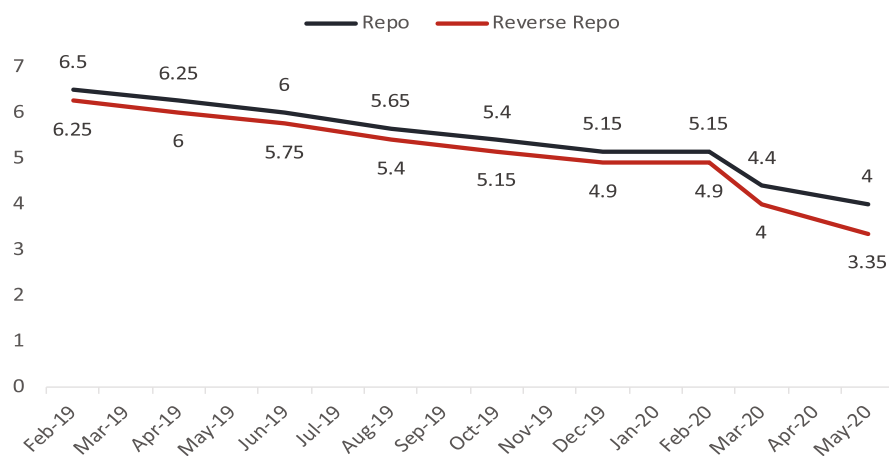
Key Highlights

- **The Monetary Policy Committee with concerns over the extension of the lockdown in the country decided to pre pone the meeting and came to conclusion to reduce the repo rate by 40bps. The Repo Rate now stands at 4.00 from 4.40.** Simultaneously, the reverse repo rate was reduced by 40 bp to 3.35 in a bid to further discourage banks from parking the money with the RBI and ensuring liquidity & credit transmission in the economy.
- Domestic economic activity has been subdued in the past months as it is evident in the high frequency indicators. Investment activity and private consumption saw a huge decline along side vehicle sales and domestic air passenger traffic.
- **The RBI has also emphasized on bringing a few measures to improve the market by providing a refinancing facility to SIDBI worth Rs.15000 crore in the earlier announcement.** The rollover facility earlier provided at 90 days has been further decided to be extended by 90 days there after.
- **In the wake of deepening contraction in global activity and trade,** it has been decided to increase the maximum permissible period of export credit sanctioned by banks from 12 months to 15 months.
- The earlier moratorium on term loans of 3 months has been extended by 3 more months for the period June, 1, 2020 - 31, August, 2020.
- The retail inflation outlook still remains uncertain with the pandemic showing no signs of restraint in the country. A normal monsoon predicted can ease the food inflation going forward while deficient demand may also hold down pressure on inflation.
- The MPC believes the economic activity in the country other than agriculture will remain depressed for FY21 because of further downside risk to domestic growth.
- The 10 year bond yield fell to a 10 year low at 5.87 before going back up to 5.97 as compared to the previous day closing of 6.03. A fall of 15bps. Alongside short term yields on AAA rated papers also saw a decline.

Rates Change	↓
Growth Outlook	↓
Inflation outlook	↓

Monetary Rates	Feb-20	Mar-20
Repo Rate	4.40	4.00
Reverse Repo	3.75	3.35
MSF	4.65	4.25

Exhibit: Monetary rates



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		INFLATION OUTLOOK			GROWTH OUTLOOK		
DATE	RATE ACTION	TONE	YEAR	RATE	BULLISH	FY18	7.40%
5th Apr 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 Jun 2018	Rate hike 25bps	Hawkish	H1FY19	4.8-4.9	Neutral	FY19	7.50%
			H2FY19	4.7		H1	7..4%
1st Aug 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 Oct 2018	No action	Hawkish	H1FY19	4.0	Bullish	Q1FY20	7.40%
			H2FY19	3.5-4.5		FY20	7.40%
			Q1FY20	4.8			
5th Dec 2018	No action	Hawkish	H2FY19	2.7-3.2	Neutral	FY19	7.40%
			H1FY20	3.8-4.2		H1FY20	7.50%
7th Feb 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 Apr 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 Jun 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 Aug 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 Dec 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 Feb 2020	No action	Dovish	H1FY21	5.4-5.0	Neutral	FY20	5.00%
			Q3FY21	3.2		H1FY21	5.9-6.3
27th Mar 2020	Rate cut 75 bps						
22nd May 2020	Rate Cut 40 bps						

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