

MONETARY POLICY STATEMENT

**KEY HIGHLIGHTS OF MEASURES TAKEN BY
RBI ON 22 MAY 2020**



Key Highlights of Measures Taken By The RBI On
22nd May 2020

The RBI Governor addressing the nation inter alia gave a brief assessment of the current Economic scenario as stated below:

- Global economic activity has remained at a standstill post COVID-19 related lockdowns and social distancing.
- Global financial markets calmed after a turbulent period in March, and volatility ebbed as swift and large fiscal and monetary policy responses helped to soothe sentiment.
- Crude oil prices firmed up modestly as oil producing countries (OPEC plus) agreed to cut production, and prospects for revival in demand improved.
- Domestic economic activity has been impacted severely. High frequency indicators point to a collapse in demand beginning March 2020 across both urban and rural segments.
- Electricity consumption has plunged, while both investment activity and private consumption suffered precipitous declines, as reflected in collapse in capital goods production and large retrenchment in output of consumer durables and non-durables in March.
- High frequency indicators of service sector activity such as passenger and commercial vehicle sales, domestic air passenger traffic and foreign tourist arrivals also experienced sizable contractions in March.
- The only silver lining was agriculture with total area sown under the current kharif season up by 43.5 per cent so far, and the rabi harvest promising to be a bumper as reflected in record procurement.

- Retail inflation, measured by the consumer price index, moderated for second consecutive month in March 2020 to 5.8 per cent.
- India's merchandise trade slumped in April 2020, with exports shrinking by 60.3 per cent and imports by 58.6 per cent (y-o-y), respectively. The trade deficit narrowed in April 2020 – both sequentially and on a year-on-year basis – to its lowest level in 47 months.
- Net foreign direct investment inflows picked up in March 2020 to US\$ 2.9 billion from US\$ 0.8 billion a year ago. In 2020-21 so far (till May 18), net foreign portfolio investment (FPI) in equities increased to US\$ 1.2 billion from US\$ 0.8 billion a year ago. In the debt segment, however, there were portfolio outflows of US\$ 3.8 billion during the same period as compared with outflows of US\$ 1.4 billion a year ago.
- India's foreign exchange reserves have increased by US\$ 9.2 billion in 2020-21 so far (up to May 15) to US\$ 487.0 billion – equivalent to 12 months of imports.

In the backdrop of the current and evolving macroeconomic situation, a brief summary of Monetary Measures & Developmental and Regulatory policies undertaken by the RBI are as under:

A. MONETARY MEASURES

Particulars	RBI's Action	Impact
Liquidity Adjustment Facility (LAF)	<ul style="list-style-type: none">• Reduction of policy repo rate under the LAF to 4% from 4.40% with immediate effect.• Reduction of Marginal Standing facility (MSF) rate and Bank Rate to 4.25% from 4.65%• Reduction of Reverse Repo Rate to 3.35% from 3.75%	It encourages banks to deploy these surplus funds in investments and loans to productive sectors of the economy.

B. DEVELOPMENTAL & REGULATORY POLICY MEASURES

<p>Measures to Improve the Functioning of Markets</p>	<ul style="list-style-type: none"> • Refinancing Facility for Small Industries Development Bank (SIDBI) <ul style="list-style-type: none"> ○ In order to provide greater flexibility to SIDBI in its operations, it has been decided to roll over the facility at the end of the 90th day for another period of 90 days. • Investments by FPIs under Voluntary Retention Route (VRR): <ul style="list-style-type: none"> ○ Grant of additional 3 months to adhere to the condition that atleast 75% of allotted units be invested within 3 months. 	<p>Eases constraints on market participants and channels liquidity to various sectors of the economy that are impacted.</p>
<p>Measures to support Exports and Imports</p>	<ul style="list-style-type: none"> • Export Credit <ul style="list-style-type: none"> ○ Increase of maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from the existing 12 months to 15 months, for disbursements made up to July 31, 2020. • Liquidity Facility for Exim Bank of India <ul style="list-style-type: none"> ○ Extension of line of credit of INR 15,000 crore to the EXIM Bank for a period of 90 days from the date of availment with rollover up to a maximum period of one year so as to enable it to avail a US dollar 	<p>Greater flexibility to importers and exporters in managing their operating cycles.</p>

	<p>swap facility to meet its foreign exchange requirements.</p> <ul style="list-style-type: none"> ● Extension of time for payment of imports <ul style="list-style-type: none"> ○ Extension of time period for completion of remittances against normal imports into India (except in cases where amounts are withheld towards guarantee of performance) from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020 	
<p>Measures to ease financial stress</p>	<ul style="list-style-type: none"> ● Moratorium of Term Loan Instalments <ul style="list-style-type: none"> ○ Extension of moratorium on term loan instalments by another three months, i.e., from June 1, 2020 to August 31, 2020. ● Deferment of Interest on working capital facilities <ul style="list-style-type: none"> ○ Deferment of another three months, from June 1, 2020 to August 31, 2020, in addition to the three months allowed on March 27, 2020 on payment of interest in respect of all such facilities outstanding as on March 1, 2020. 	<p>Relaxes repayment pressures, improves access to working capital by mitigating the burden of debt servicing, preventing the transmission of financial stress to the real economy, and ensuring the continuity of viable businesses.</p>

- **Payment of interest on working capital facilities for the deferment period**
 - Conversion of accumulated interest on working capital facilities over the deferment period (up to August 31, 2020) into a funded interest term loan which shall be repayable not later than the end of the current financial year (i.e., March 31, 2021).

- **Asset classification**
 - Moratorium/deferment provided will not result in asset classification downgrade.
 - Moratorium/deferment will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) and adversely impact of credit history of the borrowers.
 - The 90-day NPA norm shall exclude extended moratorium/deferment period.
 - Asset classification standstill for all such accounts during moratorium/deferment period from March 1, 2020 to August 31, 2020. Thereafter, normal ageing norms shall apply.
 - Flexibility to NBFCs in respect of applicability of accounting standards

- **Easing of Working capital financing**
 - Re-calculate the 'drawing power' by reducing the margins till extended period, i.e., August 31, 2020.
 - Re-assess the working capital cycle of a borrowing entity up to an extended period till March 31, 2021.
 - Changes in credit terms permitted to the borrowers to specifically tide over COVID-19's fallout will not be treated as concessions granted under 'Prudential Framework' of RBI and shall also not result in asset classification downgrade.

- **Extension of Resolution Time**
 - Lending institutions are permitted to exclude entire moratorium/deferment period from March 1, 2020 to August 31, 2020 from the calculation of 30-day Review Period or 180-day Resolution Period, if Review/Resolution Period had not expired as on March 1, 2020.

- **Limit on Group Exposures under the Large Exposures Framework**
 - One-time measure, to increase a bank's exposure to a group of connected counterparties from 25 per cent to 30 per cent of the eligible capital base of the bank.

	The increased limit will be applicable up to June 30, 2021.	
Debt Management	<ul style="list-style-type: none"> • Consolidated Sinking Fund (CSF) of State Governments - Relaxation of Guidelines <ul style="list-style-type: none"> ○ Relaxation of the rules governing withdrawal from the CSF 	—

For details, please refer the link below to the Governor's Statement dated 22nd May 2020:

<https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR239109AC3CAC0F874527895214BDF9E76BF0.PDF>

<https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR239281035C0C72F5477589233CDB3AFDE29E.PDF>

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