



RBI FISCAL RELIEF MEASURES

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Based on an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) at its meeting on March 27, 2020 announced much anticipated steps to address the liquidity requirement in the economy. Highlights from the RBI Governor's press conference are highlighted as below:

✓ **Reduction in Repo and Reverse Repo rates:**

1. RBI has reduced the **Repo Rate** by 75 basis points from 5.15% to 4.4%
2. Accordingly, the Marginal Standing Facility (**MSF**) rate and the Bank Rate stand reduced to 4.65 per cent from 5.40 per cent
3. Consequent to the widening **Reverse Repo** (LAF) corridor, the Reverse repo rate under LAF has been reduced by 90 basis points to 4%. This is to discourage banks from keeping larger amounts of money with RBI and utilize the funds for injecting funds in other investment opportunities.

✓ The MPC also decided to continue the accommodative stance which may be necessary to revive growth and mitigate the impact of the COVID – 19.

✓ The RBI Governor refrained from giving out any projected inflation numbers due to prevailing uncertain conditions and said that a major number of factors depended upon the "intensity, spread and duration" of the existing corona virus outbreak.

✓ **Moratorium Period:** The RBI also permitted all commercial banks and lending institutions to allow for **3 months moratorium** as a relief towards EMI payments due between 01.03.2020 and 31.05.2020. Non – payment of EMI during this moratorium period will not affect any credit scores.

✓ **Ease of Working Capital Facilities** – Deferment period of 3 months has been allowed on interest on working capital facilities. The accumulated amount is recoverable at the end of the deferred period. The deferment in payment of interest shall not result in asset classification downgrade.

✓ The RBI has also stressed upon a **3 – way liquidity injection**, which is expected to inject an amount of ₹3,74,000 crores into the economy:

1. **Targeted Long-Term Repo (TLTRO):** Auction of long – term repo operations of 3 – year tenor for total amount of ₹1 lakh crore floating rate to be linked to policy repo rate.
 1. The first tranche of ₹25,000 crore to be auctioned today.
 2. Investments will be classified as Held – to – maturity (HTM) even in excess of 25% requirement
2. **Cash Reserve Ratio (CRR):** CRR has been reduced by 100 basis points to 80% till 30.06.2020 in order to infuse ₹1.37 lacs crores in the banking system.
3. **Statutory Liquidity Ratio (SLR):** Increase of SLR to 3% under Marginal Standing Facility (MSF) with immediate effect till 30.06.2020.

✓ **Implementation deferred for:**

1. Incremental CCB (Capital Conservation Buffer) has been deferred from 30.03.2020 to 30.09.2020.
2. Net Stable Funding Ratio (NSFR) which was to be introduced on 01.04.2020 will be deferred till October 2020.

OUR VIEW:

The RBI has taken steps in conformity with the recent measures taken by the Government of India considering the distress caused by the sudden outbreak of COVID – 19 and the on-going lockdown. Deferment of EMIs without impacting the asset book of the banks and credit score of the borrowers is expected to provide a huge relief to the lower and middle – income groups as well as for institutions who are net borrowers in the market. The RBI has announced these measures with an intent of easing out the liquidity pressure on the corporates as well as the common man. We understand that the RBI along with the government is closely monitoring the unfolding situation and may announce additional mitigating measures.

CONTACT US

OUR OFFICES

Delhi NCR

1116, 11th Floor, WTT, C-1,
Sector 16,
DND Flyway, Noida – 201301
T: +91 120 614 300
Fax: +91 120 6143033

Mumbai

1st Floor, Unit No. 108, Inspire,
BKC, Bandra Kurla Complex,
Bandra East, Mumbai City,
Maharashtra, 400051
T: +91 22 68648100
Fax: +91 22 68648132

Bengaluru

BHIVE WORKSPACE- 7th Floor,
Mahalakshmi Chambers, 29, MG
Road, Yellappa Garden, Yellappa
Chetty Layout, Ashok Nagar,
Bengaluru, Karnataka 560001

info@acquisory.com

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