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RBI Press Conference – 22nd May 2020

The RBI in it is press conference on May 22, 2020 has provided extension and further amendments to various announcements which were made earlier. The MPC of the RBI is of the view that the macroeconomic impact of the pandemic is turning out to be more severe than initially anticipated, and various sectors of the economy are experiencing grave pressure. The announcements are aimed at countering the fallout from the ongoing nationwide lockdown.

1 REDUCTION IN REPO RATE:

- ✓ The Repo rated has been reduced by 40 basis points to 4%
- ✓ The MSF stands at 4.25% and Reverse Repo now stands at 3.35%

2 OTHER MAJOR ANNOUNCEMENTS:

PARTICULARS	Previous time – line (From)	Extension granted (To)
Special refinance term loan facility of ₹15,000 crores to SIDBI for on - lending	90 days	Additional 90 days
FPIs under Voluntary Retention Route - requirement of investing 75% of allotted limits	Within 3 months	Additional 3 months
Maximum permissible period for pre-shipment and post shipment export credit sanction by banks for disbursements made up to 31st July 2020	1 year	15 months
EXIM bank – to meet its foreign currency source requirement, a line of credit for ₹15,000 crore	--	90 days with roll over to 1 year
Time period for completion of outward remittances against normal imports (excl. gold/ diamond, precious jewels) into India from the date of shipment for such imports made up to 31st July 2020	6 months	12 months
Granting 3 months moratorium on term loan instalments and in another significant measure, the RBI has allowed borrowers and banks to convert the interest charges during the moratorium period (from March 1 to August 31) into a term loan which can be repaid by March 2021. This is expected to reduce the burden on borrowers who have gone for moratorium.	From 1st March 2020 till 31st May 2020	Extended for further 3 months From 1st June till 31st August 2020
Deferment of interest on working capital facilities		
Easing of WCF requirements by reducing margins/ reassessment of Working Capital Cycle		
Exemption from being classified as defaulter in supervisory reporting and reporting to credit information companies		
Extension of resolution time-line for stressed assets		
Asset classification standstill by extension of moratorium period		

3 LENDING INSTITUTIONS ARE BEING PERMITTED TO:

- ✓ restore the margins for working capital to their original levels till 31st March 2021
- ✓ convert accumulated interest on WCF (over deferment period from 1st Mar 2020 to 31st Aug 2020) into funded interest term loan for easier cash management

4 WORKING CAPITAL CYCLE MEASURES

- ➤ **Measures for re-assessment** of working capital cycle being extended up to till 31.3.2021

5 LIMIT ON GROUP EXPOSURES UNDER THE LARGE EXPOSURES FRAMEWORK

- ➤ To address the issue of difficulty in **raising resources from capital market**, group exposure limit of banks have been increased from 25% to 30% of eligible capital base. Increased limit will be applicable up to 30th June 2021

6 RELAXATION IN CSF

- ➤ Relaxation in rules for withdrawal from **Consolidated Sinking Fund** to enable the States to meet a larger proportion of their redemption of market borrowings in the current financial year. This is expected to help the States in meeting up to 45% of their redemptions of market borrowings due in 2020 – 21. The changes will be brought into effect immediately and will remain valid till 31st March 2020.

OUR VIEW

We expected a one – time restructuring scheme from the RBI which could have catered to the requirement of immediate relief across various sectors. We hope that the RBI will consider such a measure soon.

On the brighter side of things, today's announcement leads to the lowest repo rate recorded since 2000. The reduced repo rate will allow banks more room to lower the EMI burden for their borrowers. The RBI Governor also extended the loan moratorium, by another 3 months till August. Extension of the moratorium is a positive step, as the possibility of lockdown being lifted after 31st May is still uncertain. In the event of the lockdown being lifted, with the GDP in negative arena, borrowers would face difficulty in immediately paying back their EMIs. One may argue that 3-month moratorium is only a short – term solution, however, one cannot ignore the fact that with suppressed aggregate demand and uncertain future cash flows, even a short-term measure is welcome. The announcements made today seeks to alleviate the immediate debt servicing pressure on the corporates, allowing them to direct their energies more towards their operational issues.

The RBI has tried to keep an accommodative stance and adopted a measure approach in its announcements made today, which means the RBI is ready to ease monetary policy further to support the financial system.
Though, one-time restructuring seems inevitable, RBI seems to be working forward with full knowledge and control of the situation and has been acting quite proactively to address the concerns of the people at large.

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