

RBI's 5 key announcements today: Repo rate cut to an extension on loan moratorium

Updated: 22 May 2020, 01:01 PM IST

- **The central bank of India today cut the repo rate by 40 basis points to 4%.**
- **The RBI today extended loan moratorium by another three months.**

The Reserve Bank of India governor Shaktikanta Das on Friday announced several measures to revive the economy that has come to a standstill due to coronavirus pandemic. "The top six industrialised states that account for about 60 per cent of industrial output are largely in red or orange zones," RBI governor said during the press briefing. From reducing repo rate by 40 bps to extending loan moratorium for another three months -here are the key announcements.

Repo rate: The central bank of India today cut the repo rate by 40 basis points to 4%. The reverse repurchase rate was reduced to 3.35% from 3.75%. This rate cut is expected to bring down the lending and deposit rates.

GDP forecast: India's GDP growth is estimated to be in negative territory in FY21, said Shaktikanta Das. The two-month long coronavirus lockdown has severely affected the revenues, Das mentioned. The biggest blow to the economy came from the slump in private consumption. Consumer durables production reduced 33% in the March. Service sector contracted — passenger and commercial vehicle sales, domestic air passenger traffic and foreign tourist arrivals also slumped in March. The GDP growth will pick up in the second half of FY21, Das added.

Inflation: "The Monetary Policy Committee assessed that inflation outlook is highly uncertain," RBI governor said. He said that the headline inflation will remain firm in first half of 2020 but will ease in second half. "By Q3 and Q4 of financial year, it is expected that headline inflation will fall below the target of 4%," Das added. The macroeconomic impact of the COVID-19 pandemic is turning out to be more severe than initially anticipated, he mentioned.

Loan moratorium: The RBI today extended loan moratorium by another three months until August 31. In March, RBI had also allowed a three-month moratorium on payment of all term loans due between March 1, 2020 and May 31, 2020 to help borrowers.

RBI has also allowed the lending institutions to convert the accumulated interest on working capital facilities over the total deferment period of 6 months (i.e. March 1, 2020 up to August 31, 2020) into a funded interest term loan which shall be fully repaid during the course of the current financial year, ending March 31, 2021.

Forex: India's foreign exchange reserves 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.

"The RBI will continue to remain vigilant and in battle readiness to use all its instruments and even fashion new ones, as the recent experience has demonstrated, to address the dynamics of the unknown future," the RBI governor concluded.