

Experts expect RBI to hold policy rates in the current meeting

Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) will decide on its further policy action at the end of its two-day bi-monthly policy meeting on August 6, 2020. Most analysts and market watchers expect the RBI to refrain from further reducing key policy rates (repo and reverse repo rate) because of inflationary pressure. India's retail inflation stood at 6.1% in June 2020 and this is slightly above the MPC's target band of 2.0% -6.0%. Economists expect inflation to remain elevated in the coming months on account of supply disruptions especially in the food segment.

Already, RBI has reduced repo rate by 115 basis points in two installments since March 2020 to support economy amidst the outbreak of the COVID crisis. It is expected that RBI may wait and watch the evolving COVID crisis before taking any action.

In order to reduce repayment burden on borrowers, RBI had earlier announced six months moratorium in respect on all term loans of commercial banks, all India financial institutions and NBFCs outstanding as on 1 March 2020. Bankers suggest that the RBI should not extend the moratorium for repayment of loans beyond August 2020 as some borrowers who are capable of repaying loans are taking advantage of the moratorium. Some experts feel that RBI should provide one-time restructuring of loans in select sectors to prevent spike in non performing loans in the banking industry.

In May 2020, Government of India announced a Rs. 3 lakh crore Emergency Credit Line Guarantee Scheme for existing borrowers from the MSME sector. So far, banks have sanctioned Rs. 1.36 lakh crore (or 46% of the scheme target) to the MSMEs. Out of this, Rs. 87,227 crore has been disbursed as of July 29, 2020.

Liquidity in the banking system is abundant as RBI has so far pumped in record amount of cash through special liquidity facilities. However, demand for credit remains muted as the pace of unlocking remains slow because of the prolonged nature of the health crisis. Official data shows that the incremental bank credit to micro and small enterprises declined 5.8% in June 2020 from the year ago month. Credit growth is expected to be tepid until the lockdown restrictions are completely relaxed and consumer demand picks up.

Press Information Bureau, Government of India

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