RBI RATE CUT – IN LINE WITH CENTRAL BANKS ACROSS GLOBE

To calm the nerves of a stock market gripped by bears and to help liquidity conditions in the economy, RBI has cut Repo rate by 75 basis points, bringing it down to 4.4 per cent. (Repo rate is rate at which our Central bank lends to commercial banks like HDFC, Kotak etc.)

Impact of the rate cut on borrowers: Here's an example of how your home loan is likely to be impacted under the new external benchmark regime where in your loans are linked to repo rates.

Loan Amount (₹)	3000000
Tenure (Years)	20
Current Interest Rate (%)	7.95
Current EMI (₹)	24999.92
New Interest rate (%)	7.20
New EMI (₹)	23620.47
Cut in EMI (₹)	1379.45

The repo rate has fallen to the lowest ever. Before this, it had hit the lowest point of 4.74% in April 2009 in the wake of the Global Financial Crisis. Global economic activity has come to a near standstill as COVID-19 related lockdowns and social distancing are imposed. The outlook is for growth is heavily contingent upon the intensity, spread and duration of the pandemic. There is a rising probability that large parts of the global economy will slip into recession.

Financial markets have become highly volatile from January onwards due to the outbreak of COVID-19. Panic sell-offs have resulted in wealth destruction in equity markets across advanced and emerging economies alike. Flight to safety has pulled down government bond yields to record lows with some hardening in recent days. And in the rush to exit fixed income markets has rendered them illiquid resulting in increasing of yields.

Under these conditions, the Reserve Bank has tried to keep financial markets liquid, stable and functioning normally. Key steps which were taken in the meeting are listed as follows:

- Repo Cut-75Bps And Reverse Repo Cut-90Bps (Reverse repo Rate is the rate at which central bank borrow from banks). Reverse Repo Cut is higher than Repo Cut which Signifies RBI Is discouraging banks to park money with them and rather lend It outside.
- RBI also allowed banks and other lending institutions to extend the repayment schedule and moratorium by three months to avoid large NPAs and reduce risk weights. However, it is optional for financial institutions signaling that Banks/NBFCs would collect as usual but if anyone cannot repay then banks can decide to not classify it as overdue. This would effectively mean that the NPA norms would be changed from 90 days to 180 days.
- Cuts CRR by 100 bps to 3%, unlock Rs 1.37 lakh crore liquidity. CRR or cash reserve ratio is the percentage of total deposits that banks are required to keep in reserves with RBI so that the same can be given to bank’s customers if the need arises.
- Over the past few days, the central bank has taken aggressive liquidity management measures, infusing Rs 3.74 lakh crore liquidity into the system through various repo measures undertaken on a regular basis.
- In respect of working capital facilities in the form of cash credit/overdraft, lending institutions can allow a deferment of three months on payment of interest. The accumulated interest for the period will be paid after the expiry of the deferment period. Hence, the same will not be treated asset downgrade.

RBI has surpassed expectations by delivering more than what the market anticipated, and its promise to 'do whatever it takes' has come good. However, the latest rate cut is likely to cause more heart ache for FD investors, especially senior citizens who are dependent on interest income. Those investors looking for fixed income avenues, can consider investing in small saving schemes as an option. These include National Savings Certificates (NSC), Kisan Vikas Patra, Post Office Term deposits etc.