RBI and COVID-19

Why in news?

RBI has taken some measures to safeguard the economy from impact of the COVID-19 pandemic.

What are the measures?

- RBI has cut the Repo Rate by 75 basis points (bps) from 5.15% to 4.4%.
- Marginal Standing Facility (MSF) rate and Bank Rate has been reduced from 5.40% to 4.65%
- Reverse Repo Rate is reduced by 90 bps to 4%
- Cash Reserve Ratio (CRR) of banks to be reduced by 100 bps to 3%
- Banks are permitted to grant moratorium i.e. a temporary halt, on all term loans of 3-months of instalments.
- These measures will inject liquidity of Rs 3.74 lakh crore to the system.

What do these policy cuts mean?

- The cut in repo rate and CRR are the sharpest after the 2008 response to the global financial crisis.
- With a high 90 bps cut in the reverse repo rate, lenders are being nudged away from parking funds in RBI's reverse repo corridor.
- This rate cut and other liquidity facilities need to be enveloped in a package of macro and micro-prudential relaxations and regulatory forbearance.

What does the 3-months moratorium mean?

- This is not a waiver, but only a deferment i.e. a borrower does not have to pay interest or repay the principal on a loan for 3 months.
- Since non-payment will not lead to non-performing asset classification by banks, there will be no impact on credit score of the borrowers.
- But, the payments will be cumulated and will need further spreading out over the next quarter.
- Help for MSMEs is provided by enhancing Working Capital draw limits, by reducing margins or extending the WC cycle.
- The moratorium will reduce anxiety among businesses and individuals who will see a fall in income/cash flows.

Will these measures be effective?

- The effectiveness also depends on stakeholders' perception of the credibility of the authorities' response functions.
- As the shock to an already weakened economic system was a public health crisis, the first task is to stabilise the economy.

Source: The Hindu, Financial Express