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ROLE OF RBI'S POLICY MEASURES DURING COVID-19

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Abstract:

The paper analyses the impact of the pandemic on the banking sector in India and policy measures undertaken by Reserve Bank of India to mitigate the adverse effect covid-19. The pandemic has made a tremendous impact on life as well as business of the world's largest democracy. Though, the magnitude of impact on different sectors varies, none of the sectors are completely out of the reach of its repercussions. The battle with COVID-19 is not only to save the life of the people but also to ensure that the banking channels are working round the clock to cater to the needs of the public as well as financial market. This paper is attempted to study the impact of RBI's policy measures on banking sector in India.

Keywords: *Covid-19, RBI's Policy Measures, Banks Etc*

Introduction:

As the world is struggling on all fronts against the COVID-19, India has also been affected by the pandemic. COVID-19 outbreak has hampered the Indian Banking system and overall banking sector. Not only banking sector but it has severely affected every industry across the globe. Banking system is the backbone of any country, and its failure or slowdown could lead to multiple issues for developing countries like India. Hence, to ease out the unforeseen difficulties being faced by numerous sectors, Reserve Bank of India (RBI) being the central bank of the country produced several measures and reliefs post nationwide lockdown.

Objectives:

- To Study the impact of covid-19 on banking sector in India
- To study the role of RBI's policy measures on banking sector.

Research Methodology:

The secondary method of data collection has been used for this research paper. The secondary data has been collected from various reports and articles published by RBI.

Scope of the study: Notwithstanding its increasing impact on all spheres of global economic activity, such as health, education, technology, and the macroeconomy, the impact of the pandemic on the banking sector has been a relatively under-studied area. Even within the banking sector, the focus has primarily been on the behaviour of bank equity price

Measures related to business operations:

The pandemic had already started to show its impact on all business establishments, irrespective of their strength and

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type of industry. To prepare the banks for all kinds of unforeseen events, RBI on March 16, 2020, came out with a with 'Operational and Business Continuity Measures. Post lockdown, to ensure normal business functioning by the entire banking sector, maximum relaxations were introduced by RBI. The first address by the RBI governor on introduced several measures including, grant of a three-month moratorium on term loans and the infusion of liquidity by way of TLTRO scheme. The RBI Governor's address was intended to introduce further measures to maintain adequate liquidity in the financial system by easing out the financial stress. The third address RBI extended deadlines made changes in some previously announced measures and introduced new measures including limit on Group Exposures under the Large Exposures Framework and relaxation of guidelines for Consolidated Sinking Fund of State Governments.

Liquidity Management Scheme:

As banks are often judged on their liquidity or their ability to meet cash and collateral obligations without incurring significant losses, these measures have been introduced to ensure that all banks have sufficient liquidity to mitigate the liquidity associated with COVID. 19

Initially, it was decided to mitigate the negative impact of various instruments such as corporate loans, commercial papers, and bonds on economic activity, which exert pressure on cash flows, that the Reserve Bank will organize auctions in appropriate sizes up to a maximum of three. annual loan term, naming a maximum of 1,00,000 crores.

This increases the availability of credit to end borrowers at lower or more competitive interest rates. These timely measures by the government will benefit financial markets as NBFCs are suffering significant business and liquidity stress due to COVID-19.

Cash Reserve Ratio:

Cash Reserve Ratio (CRR) is the %age of total deposits that banks must keep either in treasuries or with the RBI so that it can be given to the customers of the bank when needed.

In the current scenario, the RBI has cut the capital requirement rate by 100 basis points to 3.0% for the year ending March 26, 2021, freeing up Rs 1.37 lakh crore of core liquidity in the banking system. In addition, the daily maintenance requirement of CRR has been reduced to 80 % from the current 90 % until June 26, 2020. This will facilitate the reporting requirements of banks and their financial staff in this unprecedented situation.

Policy Repo Rate and Reverse Repo Rate;

Due to the closure, consumption decreased, which caused excess liquidity in the banking system. To address this issue, RBI has decided to widen the current interest rate corridor from 50 basis points to 65 basis points. Similarly, the reverse repo rate under LAF, or the rate at which the central bank borrows money from domestic commercial banks, fell by 90 basis points from 4.90 % to 4.00 %. RBI had decided to reduce the interest rate on fixed rate reverse repo from 4.00 % to 3.75 %.

Marginal Standing Facility and Bank Rate:

The short-term facility (MSF) is a window where banks can borrow from the RBI in an emergency when interbank liquidity is completely exhausted, known as an overnight loan. RBI has raised MSF from 2% of SLR (Statutory Liquidity Ratio) to 3%, which means that banks must hold liquid assets, ie. gold and cash. The MSF rate and the bank rate (the interest charged by the central bank when lending to commercial banks, regulated by long-term monetary policy) will decrease from 4.65% to 4.25%. This in turn would help the banks to earn more money to meet the needs

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of the people because it gives the banks a better opportunity to take advantage of this opportunity. Refinancing Facilities for All India Financial Institutions (AIFIs)

Opening of special liquidity facility for mutual funds (SLF-MF):

The SLF-MF, opened with Rs 50,000 crore, is a window through which the RBI can lend money to banks at the repo rate for 90 days. Funds borrowed from banks in this window were limited to the liquidity needs of the funds.

With this facility, which is intended to be used exclusively for investment grade bonds, the RBI has implicitly indicated its willingness to act as a buyer of last resort for corporate bonds in the bond market if they are unable to sell their holdings at marketable prices. . . This would ease the pressure on mutual funds to sell their investments at a deep discount to redeem.

Regulatory Measures:

RBI has announced a facility that will enable all commercial banks, cooperative banks, AIFIs and NBFCs to grant a three-month moratorium on all express loans and working capital arrangements for payment of all outstanding dues from 01.03.2020. Considering the extension of the shutdown and the ongoing disruptions due to COVID-19, the RBI has decided to allow credit institutions to extend the moratorium on the repayment of term loans by another three months, i.e., from 01.06.2020 to 31.08.2020 / 2020.

Thus, the repayment and the remaining loan period can be changed by another three months. However, interest would accrue on the remaining term loans during the moratorium. This measure will greatly ease the burden on various sectors including developers as they can focus on faster implementation of projects and those who pay EMIs or use credit cards.

Special Mention Account (SMA) and Non-Performing Asset (NPA)

As per RBI Income Recognition and Asset Classification Guidelines (IRAC Guidelines), if the remittance is 30 days late, the borrower's account is classified as Special Mention Account - 1 (SMA-1) and if the remittance is 60 days late, the account is classified as Special Mention Account - 2 (SMA- 2) the account and if the transfer is delayed by 90 days, the account is classified as non-performing asset (NPA).

Deferment of Implementation of Net Stable Funding Ratio (NSFR):

The NSFR is the amount of stable funding available to the amount of stable funding required, which aims to ensure that banks maintain adequate buffers and are ready to meet future challenges. Such an additional financial requirement is necessary for safety because it would normally reduce profitability or retain capital. It helps reduce the risk of future financial stress by reducing financial risk by requiring banks to operate with stable funding sources throughout the year.

As per the prescribed schedule, Indian banks were required to maintain NSFR at 100% from April 1, 2020. It has been decided to delay the implementation of NSFR guidelines by six months from October 1, 2020.

Asset Classification and loans to commercial real estate projects by NBFCs:

RBI has decided that NBFC loans for deferred commercial real estate projects can be extended by one year without restructuring. This will improve cash flow for developers to implement and complete projects and improve the future marketability and cash flow of those projects because the extension of real estate reconstruction gives time to those real estate agents who have been waiting for demand to pick up. This period could be used to transform prices, which would not have been possible before because it would have created a mismatch between the value of the loan and the property.

Liquidity Coverage Ratio (LCR): LCR is the proportion of highly liquid assets set aside to meet short-term liabilities. As of January 1, 2019, banks must maintain LCR at 100 %. Considering the strain on banks' cash flows due to the COVID-19 pandemic, banks were allowed to maintain LCR as follows:

From date of circular to September 30, 2020 -	80 per cent
Oct 1, 2020 to March 31, 2021 -	90 per cent
April 1, 2021 onwards -	100 per cent

Measures to support Export & Import:

Export Credit: The maximum pre- and post-delivery period sanctioned by banks for export credit will be extended from 15 months to July 31, 2020, for payments made on an ongoing basis. RBI has announced this measure as it expects to ease the difficulties faced by exporters in their production and fulfilment cycles. It also significantly solves the working capital problems of merchants and relieves the pressure of prompt payment.

Liquidity Facility for Exim Bank of India: To enable EXIM Bank to meet its foreign exchange resource requirements, RBI has decided to extend Exim Bank's credit limit of Rs 15,000 for 90 days (extension up to one year). use the US dollar exchange option. The measure is expected to give the export-import sector more time and liquidity to deal with the ongoing coronavirus crisis. But while exporters welcome the timely move, their demands for government support and a detailed package continue.

Extension of Time for Payment for Imports:

RBI has decided to extend the time for foreign remittances of routine imports into India (excluding imports of gold/diamonds and jewellery) from six months to twelve months from the date of remittance if such imports are completed before July 31, 2020. This this is expected to provide liquidity support to importers, additional time to manage payments and greater flexibility in the management of business cycles in the environment of COVID-19, giving companies breathing space to deal with the crisis and not strain their books.

Conclusion: The RBI has decided to continue its accommodative stance for as long as necessary to revive economic growth and mitigate the impact of COVID-19 on the economy. This measure forces banks to invest surpluses in productive sectors of the economy.

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