CASE STUDY

Central Bank and Government Policy Measures during COVID-19: An Assessment

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Abstract

The COVID 19 is an unprecedented crisis where all economies across the globe have been struggling and facing variety of challenges. Perhaps, the first of such crisis where entire economy has come to a halt and government has put deliberate barriers to stop it. The Central banks and the government both have been seriously engaged in bringing required policy measure for survival of the common man first and to revive the economy in different phases. The policy measures implemented impact different segments in different ways. The measures include monetary implications and fiscal measure by the government. In this paper an overview and assessment is made on the measures initiated by the Reserve Bank of India and Government of India basically impacting the banking operations as the commercial banks are instrumental in taking up these policy measures.

Keywords: Lockdown, Pandemic, Containment, Economy, New Normal.

INTRODUCTION

The world has witnessed many crises both, the man created crisis and natural calamities over the centuries impacting a region, community, sector, economy, society in one way or the other causing financial losses, loss of human lives, social imbalances and economic disasters. But there has been hardly any crisis like COVID -19 which has resulted in wider sufferings to humankind, economies, society, relationship, peoples' movement

and so on all across the countries. Truly, a historic disaster and damaging pandemic, one could never imagine of. It was never in the history that economy was put to derail deliberately by the governments responsible for no normal recession. Even disaster management strategies like, social distancing, restricted movements, lockdown, containment zones, identification of red and yellow zones etc. put further barriers to the process of growth. All these have direct bearing on the demand side while containment measures with restrictions on businesses undertaken by the governments are the

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hindrances to the supply side. For the present, it is difficult to predict as how long the economies will be facing this crisis. Still the complexity of the situation is further aggravated since the government cannot leave its people suffering and therefore, a heavy burden on central banks and governments to provide adequate support and measure for survival, sustainability and revival in phases in the course of time. This puts heavily on the exchequer of governments.

In the whole process of revival and survival of the economy in general and people at large in particular, the Central banks assumes a significant role since availability of finance is the only panacea for coming over the crisis and disaster. No doubt, all the central banks have taken required policy measures to ensure that individuals and businesses do not suffer much during this pandemic. There are primarily two major responsibilities before the central banks and the governments. One, providing immediate relief to the people who have no earning sources for months together and secondly, workout strategies and policy measures for bringing the situation to normalcy known as "New Normal" ((G 20 Monetary policy strategies). This paper assesses, in particular, the impact of relief measures on banks in India. It is on account of the fact that majority of policy decisions directly or indirectly impacts the banking system of the country.

The following part of the paper describe the important measures taken by the Reserve bank of India (RBI) and the government of India to provide assistance and relief measures to existing as well as the prospective bank borrowers. Besides the measures initiated by the policy makers, the disruptions occurred on account of COVID 19 may have long term effects on account of large-scale layoffs and possibilities of bankruptcies of many business entities. This unprecedented crisis has also impacted profoundly, the financial markets across the globe and India is not an exception to it. This is in line with other countries as referred by Mario Draghi (2020) such measures are essential for all

businesses and individuals so as to support their operating expenses during the times of such a pandemic. It may be the case for a large sized corporation or small and medium-sized business entities as well the self-employed entrepreneurs or be the petty business enterprises. There are instances where several governments have initiated required policy measures by implementing strategies to channelize liquidity to the businesses facing the problems of existence. According to Stephanie Segal & Dylan Gerstel (2020) as of April 29, G20 countries have extended approximately \$6.3 trillion as fiscal support to the business entities that accounts for nearly 9.3 percent of total GDP of 2019 for G20 countries. The report further states that of the total support, about \$3.2 trillion will be by way of direct government expenditure. That constitutes 4.8 percent of 2019 GDP of the group countries. Accordingly, the increase in credit amounts to \$2.3 trillion and tax relief measures to the extent of \$0.8 trillion.

Not only in India but all across the globe, the policy initiatives have been very prompt involving much desired relief measures. The Governments, central banks and other regulatory authorities have come to rescue openly with exceptionally wise decisions to stimulate sudden stops in spending, gearing up economic activities, additional financial support to business entities and thus providing momentum to financial markets functioning. Need not to mention, the central banks and governments have initiated unprecedented policy measures to control financial disaster like situation. On earlier occasions also when the economy faced crisis, the central banks and governments have come to rescue. The evidences are available when exceptional measures were initiated to cope up with the Great Financial Crisis of 2007-08 followed by Euro Crisis in 2020-12. The regulatory authorities have been sensitive to such situations to take suitable policy measures by understanding and analyzing the deeper consequences of the crisis for the economy as a whole.

To deal with the crisis and to save the economy,

financial system and monetary mechanism from the likely impacts of financial shocks and financial crisis across the globe the RBI has been very cautious and prompt in initiating policy measures in the past and preventing the seriousness of the crisis. During the COVID -19, the RBI has been very judicious in

implementing necessary and timely the policy measures to control the damage and financial implications on the economy and economic growth. The following table 1.1 represents the initiatives taken by the RBI in phases following the danger of COVID 19.

Table : 1.1 RBI Policy Measures in COVID - 19 Pandemic

March 3	On account of outbreak in the market volatility on account of COVID 19, the RBI Governor released a press note stating that RBI is cautious and keenly watching the developments on account of the crisis. He also assured of initiating required measures and strategies according to the developments.
March 6	Keeping the further fall in the stock markets, The RBI Governor issued a notification stating that India will be able to respond the expected challenges occurring and impacting the economy due to corona virus epidemic. It also states RBI's intervention the way it is needed.
March 16	RBI issued instructions to banks advising to corroborate operational and business continuity measures so as to sustain economic and business activities. These instructions were issued immediately after declaration COVID 19 as a Global Pandemic by the World Health Organization (WHO). A signal of moral support from the Central bank of the country.
Mid-March	A special Task force was constituted by the RBI consisting of 150 RBI officials. The task of this team was to handle critical operations like debt, reserve management as part of the Reserve bank's business continuity plan to minimize the disruption of Covid on the financial system.
March 27	The RBI announced following monetary policy measures to provide liquidity in the financial system a) A cut in repo rate 75 basis points, b) Reduction in CRR by 100 basis points c) Long Term Repo Operations (LTRO) to provide Rs 1 lakh crore liquidity and support measures. This was in view of the first Monetary Policy Committee (MPC) meet immediately after the pandemic. d) Also, three-month moratorium on all loan repayments was announced till May 31, 2020
April 3	RBI curtailed daily money market trading operations time from 10 am to 2 pm just to four hours.
April 17	The following policy measures further announced to provide further liquidity in the system. i) A further reduction in reverse repo rate by 25 basis points ii) Announced a special finance package of Rs 50,000 crore for National Bank for Rural Development, Small Industries bank of India and National Housing Bank iii) A targeted LTRO of Rs 50,000 crore and iv) Bringing changes in non-performing assets classification by excluding the 90-day moratorium period

April 27	To keep the confidence of Mutual funds in view of the volatile market, RBI announced a Rs 50,000 crore special liquidity facility for mutual funds
May 22	For the third time, RBI brought following changes in the monetary policy instruments. <ol style="list-style-type: none"> 1. A cut in the REPO rate by another 40 basis points based on recommendations of second MPC meet. 2. A further extension of the three-month moratorium on repayment of loans to banks ending till August 31, 2020.

Source: Compiled by the Author

It is very much evident from the above table that RBI has been very judicious in its approach providing measures covering different sectors of the economy in phases with the increased danger and consequences of the crisis. For instance, RBI has advised the banks to rephase the loan repayment installments for individuals as majority of the borrowers have been facing cash crunch. This step provides much relief the borrowers but certainly impact the liquidity of bank funds for the present. Further, recovery under the rephasing period will pose problems for the banks in selected cases since the uncertainty of this crisis still continue and it is difficult to predict the time it will take for arriving at the new normal. In the process, there is every possibility of turning some portion of loans as bad.

The RBI reduced REPO and Reverse REPO rates in phases with an objective to bring down the borrowing cost to the corporate sector but there was not much takers even at the lower costs as markets were not functioning or only limited business operations started. The bank had enough surplus funds and had no option except to park with RBI under the reverse REPO scheme. According to the reports, more than Rs.9000 crore of funds were parked by commercial banks in a fortnight.

A package of Rs.50,000 crore was provided to NABARD, SIDBI and NHB where the objectives are very clear that these apex level institutions are engaged in promoting particular segment and they should extend required assistance to the banks and financial institutions to meet the increased requirements of agriculture, MSME and Housing sectors respectively. In that case, banks will get

adequate refinance assistance from these institutions for further direct lending to the borrowers in various categories. On one side, it will help the banking and financial institutions while on the other, it has to be seen if the banks and financial institutions will be liberal in extending assistance to the needy sector since the quality of loans will pose greater challenges. However, the assistance by the RBI was extended in tune with the government policy measure announced for extending to larger groups of beneficiaries.

The RBI attempted measures to provide more liquidity to banking system by infusing funds twice to the extent of Rs.1,50,000 crore through long term repo operations (LTRO). In the process of LTRO, the RBI extends long term, ranging from one to three years, loans to commercial banks at the repo rate prevailing as of date. In this case, banks have access to receive long-term funds relatively at a lower rate and it helps them to minimize their borrowing costs. This has direct impact on the cost of borrowing to the ultimate borrowers from the banks. Accordingly, RBI advises banks to reduce their marginal cost of funds-based lending rate, (MCLR) without reducing policy rates. It is also an indication to the market about RBI's strategic policy for not revising and relying on REPO rate and it can achieve monetary policy objectives through this mechanism.

The RBI decision to provide Rs.50,000 crore as special liquidity facility to Mutual funds was most appropriate decision in the time when stock markets have fallen to a greater extent and it badly impacted the mutual funds and small investor. To bring confidence among the small investors, this decision

was much appreciated. This has worked in right direction in providing some liquidity to mutual funds and stock markets. More than the financial packages, the moral boosting strategies of the RBI leave significant impact not only domestically but globally too. The RBI Governor has sent very positive signals across the economy to keep at least morally vibrant. Therefore, in this unprecedented crisis, the role of RBI has been very active, judicious and rational in providing required fuel to the economy during the crisis. There may be other implications of the policy measures such as, reduction in REPO will impact the cost of borrowings to the banks and financial institutions and ultimately the benefits will be passed on the ultimate borrowers. This will bring down the lending rates by banks and simultaneously, the interest payable on deposits will have to be curtailed. This will have impact on savers as well the senior citizens. But there was no escape route to RBI except to bring out required policy measures. But the moot question is how long it remains and even post COVID impact will have several implications to come to new normal.

Policy Measures of Government

Apart from the measures taken by the RBI as above, there are several policy measures announced by the government for different segments for providing them required financial packages. The following are the important measures initiated by the government related to financial support and all these will have to be routed through the banks.

- a) To provide a relief to MSME sector, the government announced a scheme where loans up to Rs 3 lakh crores will be extended to MSMEs without any collateral security. This is expected to help 45 lakh units and support them to re-commence their operations and thus help the work force in saving their jobs.
- b) In addition to the above loans scheme, a provision of subordinate debt to the extent of Rs. 20,000 crore has been made especially to support

nearly 2 lakh MSMEs which are under stressed stage. Besides, an additional equity of Rs 50,000 crore will be extended under the scheme known as, "Mother fund-Daughter fund", a scheme exclusively launched for MSMEs which are potentially viable but face resource crunch. This will help many of the MSMEs falling under this category. The government proposed a corpus of Rs. Rs 10,000 crore to achieve the objective. This will help MSMEs to expand their capacity.

- c) In agriculture sector under the PM Kisan Credit Card scheme, a total of Rs 2 lakh crore

c) MUDRA Shishu Loan

This is the scheme launched exclusively to promote MSME sector for which an exclusive agency known as Micro Units Development & Refinance Agency (MUDRA) was set up as a whole owned subsidiary of Small Industries Development Corporation (SIDBI). Under this scheme, loans are granted under the three categories viz. Shishu, Kishor and Tarun. A maximum loan amount of rs.10 lac can be extended to the existing units working under MSME segment. It basically focuses on Micro units for their development. During COVID 19, the government announced a scheme of interest subvention for the beneficiaries who have availed loans up to Rs.50,000. The interest subsidy will be 2 per cent and will be applicable for 12 months. This is expected to benefit the beneficiaries to the extent of Rs.1500 crore.

d) Street Vendors

The government was also considerate for the survival and support of street vendors. It launched a scheme under the Pradhan Mantri Street Vendor's Atm Nirbhar Nidhi which is expected to benefit about 50 lac vendors. The vendors who had their business activity on or before March 24, 2020 will be eligible for a working capital loan up to Rs.10,000 that will be repayable 3 within one year through monthly installments.

e) Affordable Housing

Under this scheme over 6.1 lac units are under

construction which has suffered due to COVID 19. The government initiate Credit linked subsidy for the people falling under the income groups of Rs.6 to 18 lac. This scheme was launched in May 2017 which us since extended to March 2021. This will support the beneficiaries to the extent of Rs.70,000 crore.

f) Small & Marginal Farmers

To provide a relief to a large number of small and marginal farmers, the government will be infusing Rs.30,000 crore as an additional capital through NABARD. This will be treated as emergency funds to help farmers for post-harvest activities.

- g) In agriculture sector under the PM Kisan Credit Card scheme, a total credit of Rs.2 lac crore at concessional rates will be extended to boost farming activities. This scheme will be benefitting about 2.5 crore farmers.

It may be noted here that majority of the above measures will have to be implemented mainly through public sector banks where government proposes to provide guarantee cover under the umbrella of Deposit Insurance and Credit Guarantee Corporation (DICGC). The loan provisions state the loans to the above identified segments will be provided without any collaterals and small loans without any guarantee. One can very well understand the implications of such measures and impact on banking operations in near future. The DICGC provides cover up to 75 per cent in case of default of small loans to the banks. The resultant effect will be majority of loans may fall as non-performing assets (NPAs) for banks. The cost of NPAs to banks will have high burden.

Given the dilemma, the following may be consequences that the above package may face.

- i) The MSME sector is not completely ready to take benefits proposed by the government since unless the demand for the products and services rise, supply side will not have much impact. The demand will increase only when people have

increased purchasing power. Under the uncertain situation, this is difficult to predict how long country has to struggle with this pandemic. Even after the crisis is over, this will take considerable time to come to the track as labour force is also shifted to their home towns.

- ii) The experience of banks has not been very much encouraging under the “Mudra Shishu” loans. With the extension of this scheme, there may be few takers seeking benefits under the scheme but it is up to bankers as how they come forward for extending assistance under this scheme. The main consideration for the banks to extend loans under this scheme will be viability of small projects and self-sponsored ventures. Obviously, the banks have to be cautious towards safety and timely repayment of their assets.
- iii) The scheme launched for Street Vendors for extending working capital to restart their activities is a considerate approach but it is also likely to meet the same fate as the other small loan schemes promulgated from time to time. If government distribute such assistance from their exchequer, it may not impact banks.
- iv) The package extended to farm sector particularly, the agriculture and non- agriculture labours will have some positive impact as this sector continues its operations and activities. The financial package may provide ease to this segment.

Further, the above packages fall under the first Phase of this crisis being declared as immediate relief. According to G 20 policy response paper, there will be increasing challenges to deal with the continuity of this crisis and then rehabilitation and gearing up the economies in different phases. They propose three phases. of challenges and strategies to deal with crisis. The situation will not be different in India too.

CONCLUSION

There are different policy measures taken by the RBI and government right from the very inception of

COVID 19 in different phases and these policy measure will continue since the crisis will pass through different phases and accordingly strategies will be implemented to deal with the emerging issues and challenges. The government and central bank's policy measures alone may not bring desired results. The need is to sensitize common man to rise and contribute to self as well for the nation. The sense of honesty and commitment and an urge to take up the activities in a desired manner is very much called for. Financial assistance should be viewed as a supporting instrument and not as a charity. This is why, there are advertisements now displaying the need for availing financial support under different schemes from the banks but with a forceful message to repay the loan. This is more important in the present context when economy faces an unprecedented natural calamity. This will not help only to banks but also boost the economy to accelerate the pace of growth.