

RBI's COVID-19 Economic Relief Package

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CURRENT AFFAIR

- After the Government's announcement of Pradhan Mantri Gareeb Kalyan Yojana, the Reserve Bank of India's Monetary Policy Committee (MPC) has come out with its own measures to help deal with economic fall out of COVID-19 pandemic.
- This was the first time that the MPC met outside its bi-monthly meeting calendar.

Economic Impact of the Pandemic

- According to the International Monetary Fund (IMF), the world has entered a recession that will be worse than the one in 2009, following the global financial crisis.
- Moody's Investor Service (a rating agency) has reduced its GDP growth forecast for India to 2.5% in 2020 - a sharp drop from an earlier projection of 5.3%, due to the impact of the COVID-19 pandemic and the resultant lockdown.
- At the low growth rate of 2.5% in 2020, India may see a sharp fall in incomes, further weighing on domestic demand and the pace of recovery in 2021.
- The ongoing 21-day lockdown in India has brought business activity in most sectors of the economy to a halt and resulted in thousands of job losses.

- The G20 countries are likely to see an overall contraction of GDP by 0.5%. G20 GDP growth rate, which was 2.6% in 2019, is likely to recover to 3.2% in 2021.
- The U.S. economy would contract by 2% in 2020, while the Euro area would see a 2.2% contraction. China's economic growth rate is expected to slow to 3.3%, although it is expected to recover to 6% in 2021.

RBI MEASURES

- **Cut in Repo Rate**
- The repo rate has been cut by 75 basis points (bps) from 5.15% to 4.40%.
- Repo Rate is the rate at which a country's central bank (RBI) lends money to commercial banks. Ideally, a low repo rate should translate into low-cost loans for general masses.
- The rates have been cut to encourage banks to lend more and to revive growth.

- **Cut in Reverse Repo Rate**
- The ratio has been cut by 90 bps to 4%.
- Reverse repo rate is the rate at which the central bank of a country (RBI) borrows money from commercial banks within the country.
- The higher reduction in the reverse repo rate was aimed at prompting banks to lend more rather than keeping their excess liquidity with the RBI.

- **Macroeconomic Indicators**
- The MPC refrained from giving growth and inflation projections, given the uncertainty in the situation.
- Growth outlook will depend on the intensity, speed, and duration of the pandemic. This clearly highlights downside risks to growth from a prolonged lockdown.

- **Moratorium on Repayments of Loans**
- RBI has also allowed banks to defer payment of Equated Monthly Installments (EMIs) on home, car, personal loans as well as credit card dues for three months till May 31.
- The RBI also allowed lending institutions, banks to defer interest on working capital repayments by 3 months — a move aimed at addressing the distress among firms as production is down.
- A working capital loan is a loan that is taken to finance a company's everyday operations.

- A **moratorium** is not a loan waiver and does not offer any discount on interest payout. But it provides stressed customers extra time to repay without their accounts being labelled non-performing assets (NPA) or their credit score being affected - a major worry for small and medium businesses.

- **Impact on Banks:** For banks and lending institutions, this will affect their cash flows as they may not be getting repayments for three months. But the RBI has reduced their cash reserve ratio (CRR) requirements, providing them additional liquidity.



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For questions and doubts



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