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HELPING A LENDING HAND: THE HINDU EDITORIAL ON RBI'S SECOND LOCKDOWN STIMULUS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The RBI has infused oxygen into the financial system with a second set of measures announced on Friday by Governor Shatikanta Das to combat the lockdown impact on the economy. Most are aimed at maintaining liquidity, the economy's lifeblood, though there are some regulatory proposals aimed at making life easier for banks, NBFCs and borrowers. It is now clear the bank prefers to calibrate its moves based on constant feedback from the ground — the way it should be. In what should be reassuring for the markets, Mr. Das was categorical that the RBI would do what it takes to support the economy and also monitor the evolving situation. Indeed, the RBI has been very generous in its liquidity maintenance measures in recent times and particularly so after the lockdown began in March. There will surely be consequences for the economy but that is a worry for another day. The overarching objective now should be to keep the economy afloat by deploying all the instruments at the RBI's command.

The central bank has learnt from its experience of the Targeted Long Term Repo Operations (TLTRO) till now when banks preferred to deploy the funds in bonds of PSUs and large corporates. The RBI has called out this risk-off attitude of the banks while announcing a further 50,000 crore TLTRO — all of this has to be invested in bonds and paper of NBFCs and microfinance institutions. The response to the next round of TLTRO will be interesting to watch. Similarly, by reducing the reverse repo rate by another 25 basis points to 3.75%, the RBI has made it furthermore unattractive for banks to indulge in 'lazy banking' by parking excess funds with the central bank rather than lend. As much as 6.9-lakh crore was parked with the RBI as on April 15. This is the time when banks will have to be liberal in extending help for working capital loans and overdrafts to their borrowers, including MSMEs. The government could help here by extending a scheme of credit assurance cover that will encourage banks to be more liberal in their risk outlook. By clarifying that there will be an asset classification standstill during the moratorium period for accounts that were not already NPAs as of March 1, the RBI has brought relief to borrowers who were worried that opting for the moratorium may turn them into NPAs. State finances have got some breathing space through the increase of WMA (Ways and Means Advances) limit to 60% over the level as on March 31. The special refinance facility of 50,000 crore extended to NABARD, SIDBI and NHB will help these institutions to prop up their respective constituents. The central bank has done what it can. It is now over to the government for the fiscal support package.

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