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RBI'S GUNS BOOM: THE HINDU EDITORIAL ON LOCKDOWN RELIEF

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The Reserve Bank of India (RBI) finally rolled out its big guns on Friday to fight the effects of the coronavirus on the financial system. Businesses were clamouring for relief and Governor Shaktikanta Das's measures address the crucial factor of sustaining system liquidity while offering palliatives to individuals and businesses. The measures seem to have been designed assuming the best case scenario that the country will be able to fight off the maleficent effects of the virus in the next few weeks. But there is no certainty over how long this uncertainty will prolong which means that Mr. Das's announcements, as indeed that of Finance Minister Nirmala Sitharaman on Thursday, can only be the initial steps needed to protect the economy. There will be more to do as the crisis evolves; governments and regulators are reacting to events, as opposed to being proactive, simply because this is a kind of crisis that they have not dealt with before. Viewed from this perspective, the RBI's steps are exactly what is needed at this point in time. They reflect the central bank's willingness to listen to impulses from the ground and its effort to stay ahead of the curve, which is laudable.

The sizeable rate cut will obviously make the headlines though its impact will be largely on sentiment. Existing borrowers will benefit assuming that banks pass on the cut quickly — it is hoped that they really do so — but there is going to be nothing like the cut spurring fresh investment, which will be the last thing on the minds of businessmen. To that extent the size of the cut appears a trifle too large. But where the RBI scores is in the liquidity enhancement measures that it has unveiled. The sum total of new long-term repo operations of 1-lakh crore, and 1.37-lakh crore each from the cut in cash reserve ratio and increase in marginal standing facility (overnight borrowings by banks from the RBI) adds up to a very significant 3.74-lakh crore. Together with the 2.8-lakh crore pumped in through various market interventions since February, the RBI's liquidity injection amounts to a whopping 3.4% of GDP. To be sure, there will be consequences of heightened liquidity but that is a problem for another day. The priority is to keep the system lubricated. The moratorium on term loans and deferment of interest on working capital loans will reduce anxiety among businesses and individuals who will see a fall in income/cash flows. The central bank has also done the right thing by widening the policy rate corridor — the reverse repo rate cut is 15 basis points more than that in the repo rate. This will hopefully push banks away from their 'lazy banking' practices and force them to lend more. In sum, it is a good start by the RBI but it needs to keep thinking on its feet and react quickly as the situation evolves.

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