

RBI GOVERNOR ANNOUNCES COMPREHENSIVE PACKAGE TO MITIGATE IMPACT OF COVID-19, REVIVE GROWTH AND PRESERVE FINANCIAL STABILITY

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Ministry of Finance

RBI Governor announces comprehensive package to mitigate impact of COVID-19, revive growth and preserve financial stability

RBI cuts Repo Rate by 75 basis points to 4.4% and Reverse Repo Rate by 90 basis points to 4%

Lending institutions permitted to allow a moratorium of three months on payment of installments in respect of all term loans outstanding as on March 1, 2020

Deferment of three months on payment of interest to lending institutions allowed for cash credit/overdraft and all such facilities outstanding as on March 1, 2020

RBI Governor hails Centre for taking timely and appropriate measures to contain the intensity, spread and duration of COVID-19 pandemic

The need of the hour is to do whatever is necessary to shield the domestic economy from the pandemic: RBI Governor

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Reserve Bank of India (RBI) has reduced the Repo Rate by 75 basis points to 4.4% and Reverse Repo Rate by 90 basis points to 4%. This has been declared by RBI Governor Shri Shaktikanta Das in a press conference, here today (March 27, 2020). He further stated that CRR of all banks is to be reduced by 100 basis points to 3% with effect from 28 March for one year. These measures will inject liquidity of Rs 3.74 lakh crore to the system. Explaining the rationale behind this decision, Shri Das said, "The decisions to lower repo rate and reverse repo rate have been warranted by the disruptive force of COVID-19. It is to mitigate impact

of coronavirus, revive growth and preserve financial stability”.

In another major announcement, the Governor said, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions), that is, lending institutions, are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020.

Further, the Governor announced that, in respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are being permitted to allow a deferment of three months on payment of interest in respect of all such facilities outstanding as on March 1, 2020. The accumulated interest for the period will be paid after the expiry of the deferment period. Also, the moratorium on term loans and the deferring of interest payments on working capital will not result in asset classification downgrade.

The decision to reduce reverse repo rate by 90 basis points to 4%, will make it relatively unattractive for banks to passively deposit funds with RBI and instead, it will encourage them to use it for productive lending, he stated. The paramount objective of RBI is to keep finance flowing and it is time to unleash an array of instruments to mitigate the impact of this pandemic and revive growth, he further explained.

The RBI Governor further stated, global economic activity has come to a near standstill, expectations of shallow recovery in 2020 have been dashed and the outlook is heavily contingent on intensity, spread and duration of COVID-19. There is a rising probability that large parts of the world will slip into recession, he said. The RBI is monitoring evolving financial conditions in mission mode and calibrating its operations to provide additional liquidity support or other measures as per need, added the Governor. The need of the hour is to do whatever is necessary to shield the domestic economy from the pandemic, he further stated.

Regarding measures taken by the Centre, RBI Governor said, “The Government has taken timely and appropriate measures to contain the intensity, spread and duration of COVID-19 pandemic. He appealed to everyone to fully cooperate with the Government in winning this war.

“Authorities across the world are fighting an invisible assassin”, he remarked and warned that, if it gets prolonged and supply chain disruptions get accentuated, the global slowdown could deepen, with adverse implications for India. The slump in crude oil prices could however, offer some relief, he also added.

Shri Das also stated that implied GDP growth rate of 4.7% in Q4 of 2019-20 is now at risk. Most sectors of the economy apart from agriculture and allied activities will be adversely affected due to corona virus outbreak, depending on intensity, spread and duration of the pandemic. Remarking that life in the time of COVID-19 has been one of unprecedented loss and isolation, he added, tough times never last, only tough people and institutions do.

In such a situation, the Governor cautioned that depositors should not resort to panic withdrawal of their deposits and especially urged those with deposits in private banks to not indulge in panic withdrawal. “COVID-19 is upon us but this too shall pass”, remarked the Governor and advised all to stay clean, stay safe and go digital.

About inflation, the Governor said that January and February 2020 trends indicate that outcomes for the quarter are running above earlier projections, due to onion price shock. Food prices may come down further, due to beneficial effects of record food grain and horticulture production.

In view of the COVID-19 pandemic, the Monetary Policy Committee (MPC) decided to advance its meeting scheduled for 31st March, 1st and 3rd April 2020. It met on 24th, 26th and 27th March and undertook a careful evaluation of the current and evolving macroeconomic and financial conditions, and the outlook.

Responding to the RBI’s decisions, the Prime Minister Shri Narendra Modi has said that the RBI has taken giant steps to safeguard our economy from the impact of the Coronavirus. The PM said that the announcements will improve liquidity, reduce cost of funds, help middle class and businesses.

The Union Finance Minister Smt. Nirmala Sitharaman appreciated the Governor’s reassuring words on financial stability; she has said that the 3-month moratorium on payments of term loan instalments (EMI) &

interest on working capital give much-desired relief and that slashed interest rate needs quick transmission. She also welcomed the Governor's statement that "the macroeconomic fundamentals of the Indian economy are sound, and in fact stronger than what they were in the aftermath of the global financial crisis of 2008-09". The Minister also appreciated the Governor's timely reminder to Stay Clean, Stay Safe and Go Digital.

Read the RBI Governor's Seventh Bi-monthly Monetary Policy Statement [here](#).

DJM/SC

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