JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

AN ANALYTICAL STUDY ON THE MONETARY POLICY MEASURES ADOPTED BY RBI IN THE POST COVID-19

*Dr.Yashoda, Assistant Professor of Commerce, Smt. Indira Gandhi Govt. First grade Women's College, Sagar

Abstract :

This paper attempted to study the monetary policy of RBI in addition to this it focuses on analyzing the measures taken by the RBI in the post COVID-19 period. India's monetary policy framework has emerged in the last few decades due to financial developments and changing economic conditions. The framework of monetary policy has also undergone significant changes in the tools and methods of identification. The introduction of the Reserve Bank of India (RBI) Act, 1934 was also amended in 2016, which now explicitly provides for the authority of the RBI. It reads: "Managing the banking notes and the preservation of the palaces for the purpose of financial stability in India and the general use of the currency and the credit system to its advantage; to have a modern monetary policy framework to meet the challenge of a complex growing economy; to maintain price stability while keeping in mind the purpose of growth. " *These measures also form part of the Special Economic Package and the 'Atmanirbhar Bharat Abhiyaan' recently announced by the Hon'ble Prime Minister of India, Narendra Modi. The highligts of this studies are RBI measures post covid-19 perdiod such as Targeted Long-Term Repo Operations (TLTROs), Cash Reserve Ratio, Marginal Standing Facility, Deferment of Interest on Working apital FacilitiesEasing of Working Capital Financing. Support to Real Estate Sector.*

Keywords : RBI, Monetary Policy, COVID-19, Cash Reseerve Ratio, Working Capital,

1. INTRODUCTION

In 1985, on the recommendation of the Committee established to Review the Performance of the Financial System (Chairman: Dr. Sukhamoy Chakravarty), a new financial policy framework, response funding was initiated based on strong evidence of a stable financial need. function. However, the introduction of finance in the 1990s meant that the need for money could be affected by things other than income. In addition, interest rates were withdrawn in the mid-1990's and India's growing economy combined with the global economy. Therefore, the RBI began to emphasize the role of monetary estimates and applied the MIA system in the 1998 fiscal policy which included all economic and financial variables that impact the main objectives set out in the Preamble of the RBI Act. This is done in two phases — initially MIA and later expanded MIA (AMIA) which combines forward-looking variables with time series models.

Based on the RBI Report of the Expert Committee on Reviewing and Strengthening the Monetary Policy Framework (2014, Chairman: Dr. Urjit R Patel), a formal transformation was made in 2016 on a volatile inflation directive and six Financial Committee Committee (MPC) members were established to set republic rate policy. The Monetary Policy Framework Agreement (MPFA) was signed between the Government of India and the RBI in February 2015 to formally adopt a flexible inflation targeting (FIT) framework. This was followed by an amendment to the RBI Act, 1934 in May 2016 to provide a legal basis for the implementation of the FIT framework. In the process of modernization of monetary policy, India has joined a group of countries that have adopted monetary policy directives, since 1990 by New Zealand, as their monetary policy framework. The Central Government announced in the Official Gazette of August 5, 2016, that the Consumer Price Index (CPI) be 4% and the tolerance band ± 2% from August 5, 2016 to March 31, 2021. writing time (April 2020), this period is ending in less than a year. In the latter, this paper discusses the emergence of a monetary policy framework in India and describes the functioning of the current framework.

The Reserve Bank of India (RBI) is India's central bank and regulatory body and is responsible for the issue and supply of the Indian rupee and the regulation of the Indian banking system. It also manages the country's main payment systems and works to promote its economic development. Bharatiya Reserve Bank Note Mudran is one of the specialised divisions of RBI through which it mints Indian bank notes and coins. RBI established the National Payments Corporation of India as one of its specialised division to regulate the payment and settlement systems in India. Deposit Insurance and Credit Guarantee Corporation was established by RBI as one of its specialised division for the purpose of providing insurance of deposits and guaranteeing of credit facilities to all Indian banks.

Coronavirus disease 2019 (COVID-19) is a contagious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The first known case was identified in Wuhan, China, in December 2019.The disease has since spread worldwide, leading to an ongoing pandemic.

Symptoms of COVID-19 are variable, but often include fever, cough, headache, fatigue, breathing difficulties, loss of smell, and loss of taste. Symptoms may begin one to fourteen days after exposure to the virus. At least a third of people who are infected do not develop noticeable symptoms. Of those people who develop symptoms noticeable enough to be classed as patients, most (81%) develop mild to moderate symptoms (up to mild pneumonia), while 14% develop severe symptoms (dyspnea, hypoxia, or more than 50% lung involvement on imaging), and 5% suffer critical symptoms (respiratory failure, shock, or multiorgan dysfunction). Older people are at a higher risk of developing severe symptoms. Some people continue to experience a range of effects (long COVID) for months after recovery, and damage to organs has been observed. Multi-year studies are underway to further investigate the long-term effects of the disease.

2. OBJECTIVES OF STUDY

1. To study the monetary policy of RBI
2. To analyze the measures taken by the RBI in the post COVID-19 period.

In order to accomplish the said objectives researcher collected data from the secondary source such as RBI websites, Newspaper, Financial Magazines and Research Articles. Researcher employed the analytical research technique in order to study the monetary policy and analyse the measures taken by the RBI in the post COVID-19 period.

- **Rescheduling of Payments – Term Loans and Working Capital Facilities**

  During COVID-19, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) ("lending institutions") are permitted to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

  In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

- **Easing of Working Capital Financing**

In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,

(i) recalculate the 'drawing power' by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,

(ii) review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.

The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

Since March 2020, the Reserve Bank of India (RBI) has taken numerous measures to fight the COVID-19 at the financial front. These measures also form part of the Special Economic Package and the 'Atmanirbhar Bharat Abhiyaan' recently announced by the Hon'ble Prime Minister of India, Narendra Modi.

Various developmental and regulatory policies undertaken by the RBI to address financial stress caused by COVID-19 include:

- Liquidity Management
- Regulation and Supervision
- Decisions in respect of Financial Markets

➢ **TARGETED LONG-TERM REPO OPERATIONS (TLTROS):**

The onset and rapid propagation of COVID-19 in India has ignited large sell-offs in the domestic equity, bond and forex markets. With the intensification of redemption pressures, liquidity premia on instruments such as corporate bonds, commercial paper and debentures have surged. Combined with the thinning of trading activity with the COVID outbreak, financial conditions for these instruments, which are used, inter alia, to access working capital in the face of the slowdown in bank credit, have also tightened. In order to mitigate their adverse effects on economic activity leading to pressures on cash flows, it has been decided that the Reserve Bank conducted auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to ₹ 1,00,000 crore at a floating rate linked to the policy repo rate.

Liquidity availed under the scheme by banks has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020. Banks shall be required to acquire up to fifty per cent of their incremental holdings of eligible instruments from primary market issuances and the remaining fifty per cent from the secondary market, including from mutual funds and non-banking finance companies. Investments made by banks under this facility is classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility also not be reckoned under the large exposure framework.

The first TLTRO auction held today (March 27, 2020). Following a review of the outcome of this auction, the subsequent TLTRO auctions announced. Details about this facility are being issued separately.

Regulation And Supervision

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) ("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. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by three months.

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 paid after the expiry of the deferment period.

In respect of paragraphs 5 and 6 above, the moratorium/deferment is being provided specifically to enable the borrowers to tide over the economic fallout from COVID-19. Hence, the same not be treated as change in terms and conditions of loan agreements due to financial difficulty of the borrowers and, consequently, not resulted in asset classification downgrade. The lending institutions may accordingly put in place a Board approved policy in this regard.

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. Such changes in credit terms permitted to the borrowers to specifically tide over the economic fallout from COVID-19 not treated as concessions granted due to financial difficulties of the borrower, and consequently, not result in asset classification downgrade.

The rescheduling of payments wnot qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

The decision in respect of financial markets is essentially of a developmental nature, intended to improve depth and price discovery in the forex market segments by reducing arbitrage between onshore and offshore markets. This measure assumes greater importance in the context of the increased volatility of the rupee caused by the impact of COVID-19 on currency markets.

Conclusion:

The offshore Indian Rupee (INR) derivative market - the Non-Deliverable Forward (NDF) market - has been growing rapidly in recent times. At present, Indian banks are not permitted to participate in this market, although the benefits of their participation in the NDF market have been widely recognised. All aspects of the issue have been examined in detail and a consensus has emerged in RBI that the time is apposite to remove segmentation between the onshore and offshore markets and improve efficiency of price discovery. Accordingly, it has been decided, in consultation with the Government, to permit banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from June 1, 2020. Banks may participate through their branches in India, their foreign branches or through their IBUs. Final directions are being issued today.

REFERENCES

1. Acosta, M. (2015). FOMC responses to calls for transparency. Available at SSRN 2647486. [Google Scholar]
2. Acosta, M., & Meade, E. E. (2015). Hanging on every word: Semantic analysis of the FOMC's postmeeting statement. FEDS Notes, 2015–09, 30. [Google Scholar]
3. Adolfson, M., Laséen, S., Lindé, J., & Villani, M. (2007). Bayesian estimation of an open economy DSGE model with incomplete pass-through. *Journal of InternationalEconomics*, *72*(2), 481511. https://doi.org/10.1016/j.jinteco.2007.01.003 [Crossref], [Web of Science ®], [Google Scholar]

4. Ahmed, M. A. (2008). Developing parliamentary web portals for citizens, MPs and related groups – Challenges and proposed solutions. *2008 IEEE International Symposium on Technology and Society*, 1–7. [Crossref], [Google Scholar]
5. Alessi, L., & Kerssenfischer, M. (2019). The response of asset prices to monetary policy shocks: Stronger than thought. *Journal of Applied Econometrics*, *34*(5), 66172. https://doi.org/10.1002/jae.2706 [Crossref], [Web of Science ®], [Google Scholar]
6. Alves, F., Kaplan, G., Moll, B., & Violante, G. L. (2020). A further look at the propagation of monetary policy shocks in HANK. *Journal of Money, Credit andBanking*, *52*(S2), 52159. https://doi.org/10.1111/jmcb.12761 [Crossref], [Google Scholar]
7. Arango, L. E., Arias, F., & Flórez, L. A. (2008). Trends, fluctuations, and determinants of commodity prices. *Borradores de Economía, 521*. https://doi.org/10.32468/be.521 [Google Scholar]
8. Arellano, C., Bai, Y., & Kehoe, P. (2012). *Financial markets and fluctuations in volatility* [Federal Reserve Bank of Minneapolis Research Department Staff Report,466]. https://www.academia.edu/download/36576883/red13-colombia2.pdf [Google Scholar]
9. Azzimonti, M. (2018). Partisan conflict and private investment. *Journal of MonetaryEconomics*, *93*, 11131. https://doi.org/10.1016/j.jmoneco.2017.10.007 [Crossref], [Web of Science ®], [Google Scholar]
10. Baker, S. R., Bloom, N., & Davis, S. J. (2016). Measuring economic policy uncertainty. *The Quarterly Journal of Economics*, *131*(4), 1593–1636. https://doi.org/10.1093/qje/qjw024 [Crossref], [Web of Science ®], [Google Scholar]
11. Ball, L. (1999). Efficient rules for monetary policy. *International Finance*, *2*(1), 63–83. https://doi.org/10.1111/1468
12. Barsky, R. B., & Kilian, L. (2001). Do we really know that oil caused the great stagflation? A monetary alternative. *NBER Macroeconomics Annual*, *16*, 137–183. https://doi.org/10.1086/654439 [Crossref], [Web of Science ®], [Google Scholar]

WEB LINKS

- https://www.makeinindia.com/rbi-measure-fight-covid-19
- https://en.wikipedia.org/wiki/COVID-19
- https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11835&Mode=0
- https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11902&Mode=0