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RBI's Shaktikanta Das emerges as knight in shining armour in India's COVID fight

Even as COVID-19 made its presence felt across the world, India's central bank was on wait and watch mode. Despite global central banks unleashing economic stimulus measures one after the other in response to the pandemic, the silence continued at Mint Road. The clamour for a rate cut was rising with each passing day.

The Reserve Bank of India (RBI) and Governor Shaktikanta Das were initially criticised for not acting. The RBI finally bit the bullet on March 27 announcing a 75 basis points cut in the policy repo rate. One bps is one hundredth of a percentage point.

Announcing the decision, along with a slew of other measures, including a much needed moratorium on term loans for three months (March-May), Das said: "Tough times never last, only tough people do."

These measures came a day after Union Finance Minister Nirmala Sitharaman unveiled a Rs 1.7 lakh crore economic welfare package for the poor in the backdrop of the coronavirus pandemic. The government's package didn't impress many, but Das' first dose of stimulus, which included liquidity easing measures, moratorium, deferment of interest on working capital facilities, easing of working capital financing and a cut in the cash reserve ratio (CRR), came as a big relief to the economy and it's already stressed financial sector.

Das ended the conference that day assuring that the RBI is in mission mode. "We have been monitoring the evolving financial market and the macroeconomic conditions and calibrating our operations to meet any need for additional liquidity support as well as to take other measures if warranted."

In early May, Prime Minister Narendra Modi announced a Rs 20 lakh crore economic package as fiscal response to the pandemic. Soon, in five days of successive press conferences, Union Finance Minister Nirmala Sitharaman announced details of the package. Surprising many, a good share of the package was liquidity measures already announced by RBI a few weeks ago.

The rest was also mainly through bank loans and concessional credit and special liquidity schemes. The direct spending part of the package was less than Rs 2 lakh crore. The twisted math of the government package, yet again, disappointed various stakeholders.

On May 22, Das yet again appeared before the press announcing yet another 40 bps rat cut and extended moratorium by another three months (June-August). This time, the central bank had already announced two rounds of targeted long term repo operations and other liquidity support amounting to over Rs 8 lakh crore. Banks and stressed borrowers, who were hit severely by the pandemic, have significantly benefited from these measures.

In the absence of a moratorium, banks would have already seen a major spike in non-performing assets (NPAs) at the end of June quarter. Under norms, any loan that is overdue 90 days needs to be tagged as bad loans or NPAs. Once this happens, banks will have to set aside funds to cover the losses.

This impacts profitability. RBI's liquidity support measures, however, has not reached smaller borrowers since risk-averse banks played safe by lending money to the big, top rated companies. Credit growth can't be revived without addressing the demand problem. Nevertheless, RBI's measures offered the much needed cushion to the economy.

"The RBI has done a pretty good job in responding to the pandemic. In the absence of the RBI measures, especially the moratorium, the NPAs would have spiked already. Also, the liquidity measures have given lot of comfort to the system," said Madan Sabnavis, Chief Economist of CARE Ratings.

Today's (August 6) measures are a reiteration of how RBI has understood the ground reality. Of the measures announced by Das in a scheduled press conference, the one-time restructuring facility announced for corporate and personal loans are highly significant. The continuing slowdown in Asia's third largest economy, which got a double whammy with the onslaught of COVID, necessitated a loan recast to save banks from an impending bad loan crisis.

The one-time recast is also an exit route for banks from the six month long moratorium. In his address on August 6, Das repeated his assurance to the markets that he will act when needed and he is an optimist. The former finance secretary has kept his promise so far. When the government disappointed to offer real stimulus to a COVID hit economy, Das has emerged as the knight in shining armour at the forefront of India's COVID battle.