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COVID-19 RESPONSE ON BANKING AND FINANCE: MEASURES AND RELIEFS BY RBI

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Introduction:

As the world is battling on all fronts against the outbreak of COVID-19, India has also been considerably affected by the pandemic. In order to contain the spread of the pandemic, Government of India announced a nationwide lockdown starting from March 25, 2020. The ongoing pandemic has posed a sizeable impact on life as well as business of the world's largest democracy. Though, the magnitude of impact on different sectors varies, none of the sectors are completely out of the reach of its repercussions.

The battle with COVID-19 is not only to save the country and its people but also to ensure that the banking channels are working round the clock to cater to the needs of the public as well as financial market. Needless to say, that banking system is the backbone of any country and its failure or slowdown could lead to multiple issues for developing countries like India. Hence, in order to ease out the unforeseen difficulties being faced by numerous sectors, Reserve Bank of India (RBI) being the central bank of the country came up with a number of measures and reliefs post nationwide lockdown which have been discussed in this article at length.

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Operational and Business Continuity Measures:

Early March, before the announcement of lockdown, the pandemic had already started to show its impact on all business establishments, irrespective of their strength and type of industry. In order to prepare the banks for all kinds of unforeseen events, RBI on March 16, 2020 came out with a notification with 'Operational and Business Continuity Measures'[1] involving the following steps:

(a) Taking stock of critical processes and revisiting Business Continuity Plan (BCP) in the emerging situations/scenarios with the aim of continuity in critical interfaces and preventing any disruption of services, due to absenteeism either driven by the individual cases of infections or preventive measures;

(b) Taking steps of sharing important instructions/ strategy with the staff members at all levels, for soliciting better response and participation and sensitizing the staff members about preventive measures/steps to be taken in suspected cases, based on the instructions received from health authorities, from time-to-time; and

(c) Encourage their customers to use digital banking facilities as far as possible.

Perhaps, the government had a premonition that the most overwhelming challenge was on its way. Hence, these steps were introduced by the central bank before the commencement of the nationwide

[1] Reserve Bank of India, *COVID-19- Operational and Business Continuity Measures*, RBI/2019-20/172, (March 16, 2020).

lockdown and provided time to the banking fraternity to be prepared with the BCP and other measures in order to help them face any kind of obstacles that may come in the future.

Post lockdown, in order to ensure normal business functioning by the entire banking sector, maximum relaxations were introduced by RBI on March 27, April 17, 2020 and May 22, 2020 vide different notifications. The first address by the RBI governor on March 27, 2020[2] introduced several measures including, grant of a three months moratorium on term loans and the infusion of liquidity by way of TLTRO scheme. The RBI Governor's address on April 17, 2020[3] was intended to introduce further measures to maintain adequate liquidity in the financial system by easing out the financial stress. The third address on May 22, 2020[4] extended deadlines, made changes in some previously announced measures[5] and introduced new measures including limit on Group Exposures under the Large Exposures Framework and relaxation of guidelines for Consolidated Sinking Fund of State Governments. These relaxations have been discussed in the following five sets of measures:

(a) Liquidity Management Measures

(b) Financial Market Measures;

(c) Regulatory Measures;

(d) Measures to support Exports and Imports; and

(e) Debt Management Measures.

Liquidity Management Measures:

As banks are often evaluated on their liquidity, or their ability to meet cash and collateral obligations without incurring substantial losses, these measures had been introduced to ensure that adequate liquidity is available to all constituents so that COVID-19 related liquidity constraints are eased.

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Targeted Long-Term Repos Operations (TLTROs)

Initially, in order to mitigate the adverse effects of various instruments such as corporate bonds, commercial paper and debentures on economic activity leading to pressures on cash flows, it had been decided that the Reserve Bank will conduct 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.

The TLTRO announcement from RBI through press release dated April 17, 2020, aimed at injecting around ₹ 50,000 Cr of additional liquidity into the banking system, specifically via Banks to small and mid-sized NBFCs and MFIs.

However, the results announced by RBI through press release dated April 23, 2020, were not so good news for small and mid-sized NBFCs and MFIs as they were falling short by almost half of the total capacity expected. The limited response by banks in the TLTRO 2.0 clearly highlighted their reluctance to lend in the current situation and the stipulation that they should invest only in "investment grade" debt may have been holding them back.

It is pertinent to note that given the lack of risk appetite in banks, Special liquidity scheme of ₹ 30,000 crore for NBFCs/HFCs/MFIs along with ₹ 45,000 crore liquidity infusion through a Partial Credit

[2] Press Release, RESERVE BANK OF INDIA, March 27, 2020, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49582
[3] Governor's Statement, RESERVE BANK OF INDIA, April 17, 2020, https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3853
[4] Press Release, RESERVE BANK OF INDIA, May 22, 2020, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49844
[5] Press Release, RESERVE BANK OF INDIA, May 22, 2020, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49843

Guarantee Scheme 2.0 for NBFCs has been launched by the Finance Minister as a part of first tranche of Rs. 20 lakh crore Relief Package announced on May 13, 2020.

This will increase the availability of credit to end borrowers, hopefully at lower or more competitive interest rates. These timely measures taken by the government will benefit the financial market as NBFCs were suffering from a significant business impact and liquidity stress due to COVID-19.

Cash Reserve Ratio

Cash Reserve Ratio (CRR) is the percentage of total deposits that banks are required to keep in reserves either in the vaults or with RBI so that the same can be given to bank's customers if the need arises.

Considering the current scenario, RBI through press release dated March 27, 2020 cut the CRR by 100 basis points to 3.0 percent for a period of one year ending on March 26, 2021, unlocking ₹ 1.37 lakh crore primary liquidity in the banking system.

In addition, reduction in daily CRR maintenance requirement to 80 percent from 90 percent currently till June 26, 2020 had been made. This will provide some relief for banks' reporting requirements and for its treasury staff under the current unprecedented circumstances.

Widening of the Monetary Policy Rate Corridor: Review of the Liquidity Adjustment Facility (LAF)

A liquidity adjustment facility (LAF) is a tool used by RBI, that allows banks to borrow money through repurchase agreements (repos) or for banks to make loans to the RBI through reverse repo agreements. In other words, LAF is used to help banks adjust the mismatches in liquidity by enabling them to quickly borrow money in case of any emergency.

(a) *Policy Repo Rate and Reverse Repo Rate*

Due to lockdown, consumption has reduced which has resulted in excess liquidity in the banking system. In order to overcome this problem RBI through press release dated March 27, 2020, had decided to widen the existing policy rate corridor from 50 bps to 65 bps. Accordingly, the reverse repo rate under LAF, the rate at which the central bank borrows money from commercial banks within the country, was reduced by 90 bps from 4.90 percent to 4.00 per cent. Through notification dated April 17, 2020 RBI had decided to reduce the interest rate on fixed rate reverse repo from 4.00 percent to 3.75 percent.

It was contended that banks have been lending as much as ₹8 lakh crores in the reverse repo window as a result of which the system liquidity has increased. Hence, in a pre-policy meeting with RBI's governor, abolition of the reverse repo rate was recommended by several economists by replacing it with Standing Deposit Facility (SDF). SDF is a remunerated facility where banks can lend as much money with RBI at a lower rate than reverse repo and the same will not require the provision of collateral for liquidity absorption. However, the Monetary Policy Committee (MPC) voted unanimously for a reduction in the policy repo rate for maintaining the accommodative stance of monetary policy so long as it is necessary to revive growth while ensuring that inflation remains within the target. Hence, as per the notification dated May 22, 2020, it has now been decided by MPC to reduce the policy repo rate under LAF from 4.40 per cent to 4.00 percent. Accordingly, the Standing Liquidity Facility provided to Primary Dealers (PDs) (collateralised liquidity support) from RBI would be available at the revised repo rate of 4.00 per cent with effect from May 22, 2020. Consequently, the reverse repo rate under the LAF stands adjusted to 3.35 percent. RBI has decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy. This move

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will oblige the banks to deploy the surplus funds to productive sectors of the economy in the form of investments and loans instead of RBI.

(b) *Marginal Standing Facility and Bank Rate*

Marginal standing facility (MSF) is a window for banks to borrow from RBI in an emergency situation when inter-bank liquidity dries up completely, what is also known as overnight borrowing. RBI had increased MSF to 3% from 2% of SLR (Statutory Liquidity Ratio) which means the mandatory holding of liquid assets viz gold and cash by banks. This means an increase of 100 basis points till June 30, 2020.

Through notification dated May 22, 2020, the MSF rate and the Bank Rate (the rate charged by the central bank for lending funds to commercial banks and is governed by the long-term monetary policies) stand reduced to 4.25 per cent from 4.65 per cent. This would in turn help banks make more money available to meet the needs of people as this brings banks to a better position to make use of this facility.

Refinancing Facilities for All India Financial Institutions (AIFIs)

RBI vide notification dated April 17, 2020 announced special refinance facilities amounting to ₹ 50,000 crore to AIFIs, comprising of ₹ 25,000 crore to NABARD, ₹ 15,000 crore to SIDBI and ₹ 10,000 crore to National Housing Bank (NHB). The AIFIs raise resources from the market through specified instruments allowed by the RBI, in addition to relying on their internal sources. The central bank, through notification dated May 22, 2020, decided to roll over the ₹15,000 crore special refinance facility given to SIDBI at the end of the 90th day for another period of 90 days. The measure has been taken to address the stress due to cash flow disruptions caused by COVID-19 and to meet sectoral credit needs at a time when these institutions are facing difficulty in tapping the market.

This step along with TLTRO 2.0 was expected to take care of the liquidity requirements of NBFCs, HFCs and MFIs. Although, after seeing the result of TLTRO 2.0, government has introduced Special Liquidity Scheme of ₹ 30,000 and a Partial Guarantee Scheme 2.0 of ₹ 45.000 for NBFCs which is expected to help in easing the flow of credit.

Review of Limits of Way and Means Advances (WMA) of States/UTs

The ‘Ways and Means Advances’ is a scheme that helps meet mismatches in receipts and payments of the government as it is a temporary liquidity arrangement with the central bank, which enables the Centre and states to borrow money up to 90 days from the RBI.

RBI through press release dated April 20, 2020 revised the WMA limit to ₹ 2,00,000 crore for the remaining part of first half of the financial year 2020-21. This move supports RBI's earlier decision to increase the limit by 60% for States/UTs.

It is important to note that the WMA relief is too little to help, as the short-term liquidity enhancing measure may provide some reprieve but is not the solution for the shortfall in states’ revenue. If the revenue sources of the states remain weak, it will be difficult to make committed payments.

Opening of special liquidity facility for mutual funds (SLF-MF)

The SLF-MF, which was opened for an amount of ₹ 50,000 crore vide notification dated April 27, 2020, is a window that allowed RBI to lend money to banks at the repo rate for 90 days. The fund that banks borrowed under this window was confined to meet the liquidity needs of mutual funds.

This move came as there was fear in the market that mutual fund houses might face liquidity shortages shortly after Franklin Templeton Mutual Fund shut six of its open-ended debt funds, effective April 23.

Through this facility, which has been made available exclusively for investment-grade bonds, RBI has indirectly showed its willingness to act as buyer of last resort for corporate bonds for bond markets if they are unable to sell their holdings at a fair price in the market. This would ease the pressure on mutual funds to sell their investments at a huge discount to meet redemptions.

Investments by Foreign Portfolio Investors (FPIs) under the Voluntary Retention Route (VRR)

After receiving several complaints from FPIs for adhering to the condition of investing at least 75 per cent of allotted limits, made through VRR, to be invested within three months, the central bank vide notification dated May 22, 2020, has granted an additional three months to fulfil this requirement.

VRR is channel of investment available to FPIs to encourage them to invest in debt markets in India over and above their investments through the regular route. The objective is to attract long-term and stable FPI investments into debt markets while providing FPIs with operational flexibility to manage their investments. This is a welcome change and will ensure that the committed financiers get a breathing space and evaluate the commitments before funding,

Financial Market Measures:

These measures are essentially developmental in nature, intended to improve depth and price discovery in the forex market segments. This measure assumes greater importance in the context of the increased fluctuation of the rupee caused by the impact of COVID-19 on currency markets.

Permitting Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets (Offshore NDF Rupee Market)

In January, a task force on offshore rupee markets had suggested that Indian banks should not be permitted to deal in offshore rupee market considering the risk that participation of Indian banks may improve liquidity in the offshore market and undermine the development of the onshore market. RBI considered that the time is apposite to remove the segmentation between these two markets and through a notification dated March 27, 2020 permitted the 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.

This step will augment liquidity in NDF and it will help RBI to intervene in the NDF market which in turn will help increase arbitrage trades, thereby reducing the spread between the onshore rupee forwards as well as the NDF.

Regulatory Measures:

These measures were introduced to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 and to ensure the continuity of viable businesses.

Rescheduling of Payments – Term Loans and Working Capital Facilities

The RBI, through a notification dated March 27, 2020, unveiled a measure by permitting all commercial banks, co-operative banks, AIFIs and NBFCs to grant a moratorium of three months on all term loans as well as on working capital facilities on payment of all instalments outstanding as on March 1, 2020. In view of the extension of the lockdown and continuing disruptions on account of COVID-19, RBI has

decided to permit lending institutions to extend the moratorium on term loan instalments by another three months, *i.e.*, from June 1, 2020 to August 31, 2020, vide notification dated May 23, 2020.

Accordingly, the repayment schedule and the residual tenor may be shifted across the board by another three months. However, interest would continue to accrue on the outstanding portion of the term loans during the moratorium period. This measure will be extremely helpful in lowering the burden for various sectors including the developers as they will be able to focus on faster execution of projects and for those who are paying EMIs or using credit cards. I

Easing of Working Capital Financing

In respect of working capital facilities RBI, through notification dated May 23, 2020, has extended the deferment period for recovery of interest by another three months, to August 31, 2020. It was also decided that lending institutions are permitted to convert the accumulated interest on working capital facilities over the deferment period into a funded interest term loan and they may also recalculate the 'drawing power' by reducing the margins till the extended period, *i.e.*, August 31, 2020 and/or by reassessing the working capital cycle up to an extended period till March 31, 2021. The RBI also specified that such a move would not result in asset classification downgrade.

This will provide banks a lot of leverage to make an informed assessment and in giving differentiated treatment to each and every industry depending upon the impact of COVID-19 on them. Also, it is interesting to note that there will be no adverse impact on the credit history of the beneficiaries as this will not be considered as a default by the lending institutions for the purposes of supervisory reporting and reporting to credit information companies (CICs).

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

In terms of the Income Recognition and Asset Classification Guidelines (IRAC Guidelines) of the RBI, if an instalment is overdue by a period of 30 days, the borrower's account is classified as Special Mention Account – 1 (SMA-1) and if the instalment is overdue by 60 days, the account is classified as Special Mention Account – 2 (SMA-2) and if the instalment is overdue by a period of 90 days, the account is classified as Non-performing Asset (NPA).

The RBI's Regulatory Package dated March 27, 2020, which provided a relief in the form of a three-month moratorium, did not provide any clarity on whether such reliefs are applicable in case a default had occurred prior to the moratorium period, thereby resulting in a 'special mention account' (SMA) classification. As a result, a number of cases were filed before the courts in order to ascertain the stance of asset classification in case of defaults on payments that fell due prior to March 1, 2020.

RBI cleared the fog through a notification dated April 17, 2020 by implying that for accounts, which were classified as standard (including SMA-2 accounts) as on February 29, 2020, there would be an **asset classification standstill** which means there will be no movement, deterioration or upgradation, in the asset classification and until the end of the moratorium period (which now stands extended till August 31, 2020 vide notification dated May 23, 2020), such accounts are not required to be classified as NPA.

Deferment of Implementation of Net Stable Funding Ratio (NSFR)

NSFR is the amount of available stable funding relative to the amount of required stable funding with the objective of ensuring that banks maintain sufficient buffers and remain adequately provisioned to meet future challenges, such a requirement of setting aside more money is necessary from a safety

perspective as this would typically dent profitability or hold up capital. It helps in mitigating the risk of future funding stress as it reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a period of one year.

As per the prescribed timeline, banks in India were required to maintain NSFR of 100 percent from April 1, 2020. Through notification dated March 27, 2020, it had been decided to defer the implementation of NSFR guidelines by six months to October 1, 2020.

This move shall aid banks' ability to support credit requirements in the short term as they will have more time to raise new capital given the change in the environment due to COVID-19.

Deferment of Last Tranche of Capital Conservation Buffer

The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times (i.e., outside periods of stress) which can be drawn down in case losses are incurred during a stressed period. RBI had extended the deadline for meeting last tranche of CCB by another six months to September 30, 2020.

It is interesting to note that this is a big relief for public sector banks as private banks were adequately capitalised which made things even more difficult for the public sector banks.

Provisioning

RBI mandated that if banks decided to extend the moratorium on any loans except for NPAs, they would have to make an additional provision of 10 percent, to be phased in two quarters ending March 2020 and June 2020.

Shortly after, a question arose that if the provisioning has to be considered for all SMA accounts. In a meeting with the bank's CEOs, RBI's senior regulatory officials clarified that provisioning should be considered only for loans where principal or interest payments are overdue between 61 and 90 days as on March 1, 2020, i.e., SMA-2 accounts.

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It is interesting to note that as a result of this measure, many private banks have managed to stock enough buffer of credit reserve to the extent that if the situation prolongs the reserve may be able to take care of any events that may happen in the future. On the other hand, not all banks are confident about the economic situation. Hence, it is yet to be seen that what percentage of loans under moratorium finally make it back to standard and if the same will be sufficient to handle the incremental asset quality stress.

Asset Classification and loans to commercial real estate projects by NBFCs

RBI vide notification dated April 17, 2020 had instructed NBFCs to comply with Indian Accounting Standards (IndAS) and the guidelines duly approved by their Boards and ICAI Advisories which will serve the purpose of impairment recognition. This notification was silent on extending the moratorium period of three months to NBFCs. Hence, the RBI governor, during a video conference, clarified that the regulator has no objection if banks were to allow NBFCs to defer repayments till May 31. As per RBI's notification dated May 23, 2020 NBFCs are permitted to extend the moratorium by another three months till August 31, 2020.

Through another notification dated April 17, 2020, RBI had decided that the loans by NBFCs to delayed commercial real estate projects can be extended by a year without restructuring.

This will improve the developers' cash flows for execution and completion of the project and improve the future saleability of their projects and their cash flows as an extended period for restructuring of assets gives time to those realtors who have been waiting for demand revival. This period could be used to rework on their pricing, which would not have been possible earlier as it would have created a mismatch between their outstanding loan and asset value.

Extension of Resolution Timeline

In the case of large accounts under default, Scheduled Commercial Banks, AIFIs, etc. are required to hold an additional provision of 20 percent if a resolution plan has not been implemented within 210 days from the date of such default.

Due to the challenges faced in the resolution of stressed assets in the current volatile environment, RBI through notification dated April 17, 2020 had extended the period for the resolution plan by 90 days. As per the notification dated May 23, 2020, lending institutions are permitted to exclude the entire moratorium/deferment period from March 1, 2020 to August 31, 2020 from the calculation of 30-day Review Period or 180-day Resolution Period, if the Review/Resolution Period had not expired as on March 1, 2020. This relaxation on one hand will provide some additional time to banks in resolving the stressed assets and will also be the most beneficial for MSMEs considering the high vulnerability of these sectors. While, on the other hand it can ultimately lead to eventual asset classification downgrade and asset quality degradation in the next two quarters of the financial year.

Distribution of Dividend

RBI vide notification dated April 17, 2020 decided that all banks shall not make any further dividend pay-outs from the profits pertaining to the financial year ended March 31, 2020 until further instructions. This restriction shall be reassessed for the quarter ending September 30, 2020.

While it is a positive move for the specified shorter span of time in terms of capital position, it could also effectively mean no dividends for the year in case the new policy on dividend distribution is extended beyond September. The impact will be more on those private sector banks which have distributed profits in the previous year as it could involve more than 20 percent of the profits.

Liquidity Coverage Ratio (LCR)

LCR is the proportion of high liquid assets set aside to meet short-term obligations. Banks are required to maintain LCR of 100 percent with effect from January 1, 2019. In order to accommodate the burden on banks' cash flows on account of the COVID-19 pandemic, banks were permitted to maintain LCR as under:

From date of circular to September 30, 2020 -	80 per cent
Oct 1, 2020 to March 31, 2021 -	90 per cent
April 1, 2021 onwards -	100 per cent

Banks have been facing stress due to the lockdown and reduction in LCR requirement will manage their liquidity effectively as banks would have more cash to deal with the current state of affairs.

Limit on Group Exposures under the Large Exposures Framework

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In view of the current difficulty in raising resources from capital markets, RBI vide notification dated May 23, 2020 increased the bank's exposure to a group of connected counterparties from 25% to 30% of eligible capital base for enabling the corporate to meet their fund requirement from banks, upto June 30, 2021.

This measure was taken by the RBI based on discussion with many large groups, especially with government owned entities, where the restriction on group exposure limit was proving inadequate due to their mergers. Along with helping the corporates, this move may help certain large banks that have competitive costs of funds in increasing their exposure, as otherwise large groups borrow from bond markets at competitive rates.

Measures to Support Exports and Imports:

Due to COVID-19 the exporters have been facing genuine difficulties such as delay / postponement of orders, delay in realisation of bills, etc..

Relaxation in Realisation and Repatriation of Export Proceeds

RBI vide notification dated April 1, 2020 had announced that the time period for realization and repatriation of export proceeds for exports made up to or on July 31, 2020, has been extended from nine months to fifteen months from the date of export. This measure is expected to help exporters by providing greater flexibility to negotiate future export contracts with buyers abroad and will realise their receipts, especially from COVID-19 affected countries within the extended period.

Export Credit

The maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks is increased from the existing one year to fifteen months, for disbursements made up to July 31, 2020. RBI vide notification dated May 23, 2020 has announced this measure as this is expected to alleviate difficulties being faced by exporters in their production and realisation cycles. This will also solve the working capital woes of traders to a considerable extent and ease the pressure of making immediate payment.

Liquidity Facility for Exim Bank of India

In order to enable the EXIM Bank to meet its foreign currency resource requirements, RBI has decided to extend a line of credit of Rs 15,000 crore to Exim Bank for a period of 90 days (with rollover up to one year) so as to enable it to avail a US dollar swap facility. This measure is expected to give the export-import sector more time and liquidity to tackle the ongoing coronavirus crisis. But while exporters are lauding the timely measure, their call for more government support and a detailed package continues.

Extension of Time for Payment for Imports

The RBI has decided to extend the time period for completion of outward remittances against normal imports (i.e. excluding import of gold/diamonds and precious stones/jewellery) into India from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020. This is expected to provide importers liquidity support, extra time to manage their dues and greater flexibility in managing their operating cycles in a COVID-19 environment, thereby businesses will get a breather to deal with the crisis and not stress their ledgers.

Debt Management Measures:

This measure is intended to ease debt management constraints on State Government finances by enabling States to meet a larger proportion of their redemption of market borrowings falling due in the current financial year from the CSF.

Consolidated Sinking Fund (CSF) of State Governments - Relaxation of Guidelines

The CSF is a reserve fund created by states for amortisation of their debt obligations. In order to provide more resources to states, RBI vide notification dated May 22, 2020 eased the rules governing withdrawal from the CSF which will remain valid till March 31, 2021, resulting in release of additional ₹ 13,300 crore to the states.

The states that will benefit the most are those which have managed to keep large amounts in the CSF reserves, namely Maharashtra, Gujarat, Odisha, West Bengal, Andhra Pradesh, Bihar and Tamil Nadu. With the relaxation in rules, it is expected that more states would benefit from this measure as they will be able to meet about 45 per cent of their redemptions due in 2020-21. While this measure will help check the upward thrust of public sector borrowing cost, on the other hand, the lower interest rates may prove to be unfavourable to the household sector saving rate which may suffer due to both income and price effects.

Conclusion:

Though the measures adopted and implemented by RBI are temporary, so far these have been very effective to stabilize the volatile situation going on in the financial market. As COVID-19 continues to spread, both borrowers and lenders should be watchful of the compliance requirements which have not been relaxed and take appropriate steps to fulfil such obligations in a timely manner.

Although, all the previous measures introduced by RBI are already a part of the Relief Package announced by the Central Government, RBI may also need to consider a degree of prudential forbearance in terms of other policies as well, which could be on similar lines with the Relief Package. RBI may consider introducing the much talked COVID-19 bond consoles. Given the risk of using currency notes in times of pandemic, incentivizing digital payments further could be an effective solution in the current circumstances. Furthermore, the domestic economy is also expected to shrink to a great extent until the vaccine for COVID-19 is developed. In response to all this and assuming the effect of the pandemic will continue beyond May 31, 2020, it is expected that RBI would come up with more additional measures to contain the economic stress.