Reserved Maybe, Effective Certainly

As Reserve Bank of India enters its 90th year today, April 1, 2024, it's time to reflect upon its journey through the multitude of overlapping shocks over the last few years. The pandemic, followed by continuing geopolitical crises in several parts of the world tested the resilience of every economy, including that of India. Nevertheless, it is satisfying to note that, as a country, we've navigated through this period of 'great volatility' remarkably well.

Macroeconomic fundamentals of the Indian economy remain strong. There's been a sea change in global perceptions about India and its potential in the global economy. Often, people ask me what was different in Reserve Bank's recent crisis management that resulted in better outcomes. Here, I outline key contours of our actions, some of which were unique among central banks.

Flexible & prepared

First, our policy responses were agile and decisive without being tied down by existing dogma or stereotypes — some actions were, of course, drawn from past rule books. Even before the nationwide lockdown was announced, we created a bio-bubble facility comprising more than 200 employees and service providers to ensure continued operations of financial markets and payment systems. Our monetary policy committee (MPC) reacted swiftly by reducing the policy repo rate sizably by 115 basis points (bps) in a span of two months (March-May 2020).

A significant quantum of liquidity was infused through banks by resorting to both conventional and unconventional measures to stimulate the economy, restore confidence and revive market activity. Liquidity was provided against government securities (G-Secs) and, as a result, the quality of RBI's balance sheet was not diluted. Further, by injecting liquidity for pre-specified periods, we didn't let ourselves be trapped in a 'chakravyuh' of liquidity that could have created future vulnerabilities.

Second, during the pandemic's peak, we emphatically stated that orderly evolution of the G-Sec yield curve was a public good, because it acts as a benchmark for prices of financial instruments, bank loans and corporate bonds. This statement was backed up by a government securities acquisition programme

(G-SAP) and other measures, which ensured borrowing costs were kept low during Covid's stressful times.

Judgement matters

Third, MPC decided to look through the intermittent bouts of high inflation during the pandemic, as the need of the hour was to support economic revival, but as soon as there were growing indications of a build-up of generalised and persistent inflationary pressures following the Ukraine war and adverse weather events, MPC quickly changed gears by prioritising inflation over growth, and raised policy rates by 250 bps between May 2022 and Feb 2023.

Stance of monetary policy was also changed from being accommodative, to, withdrawal of accommodation, to anchor inflation expectations. These measures, together with several supply side interventions, helped bring down inflation decisively from heightened levels of summer of 2022 and keep it on a path of disinflation towards the 4% target.

Not just interest

Fourth, to alleviate stress from various segments of the financial sector, including the borrowers', macroprudential measures like moratorium on loan repayment for six months, followed by Resolution Frameworks for Covid-stressed assets, easing of working capital financing, restructuring of MSME loans, countercyclical regulatory measures like easing of risk weights, and loan to value ratio against certain categories of loans, were also announced.

Most measures were offered for limited periods and weren't open ended. They were subject to achievement of certain financial and operational parameters. Thus, the design of all these measures was based on principles of prudence and sustainability. In addition, banks were encouraged to raise additional capital — which they did — as a buffer against future uncertainties.

Fifth, RBI retained its focus on critical reforms in the regulatory and supervisory architecture. Our supervisory systems have been strengthened significantly in recent years by adopting a unified and harmonised approach for regulated entities. Emphasis is on strengthening governance, early identification of vulnerabilities and taking pre-emptive actions. Some key regulatory measures include issuance of comprehensive governance guidelines for commercial banks; scale-based regulatory framework for NBFCs, revised regulatory framework for urban cooperative banks and digital lending guidelines.

In sync

Sixth, monetary and fiscal policies displayed extraordinary coordination during this period of 'great volatility', reinforcing the channels to achieve public policy objectives, and achieve better macroeconomic outcomes.

Seventh, we used effective communication to anchor market expectations, provide confidence to markets and enhance the credibility of our policies. We backed up our communication by credible action and periodic consultations with stakeholders.

Eighth, as a well-considered policy choice, we built up foreign exchange reserve as buffer against external stress and turn of cycle — a strong umbrella for a rainy season. Today, our forex reserves are at an all-time high.

There's never a dull moment in a central bank's life. Challenges and risks may originate from any corner of the world or financial sector. Need of every hour is to remain vigilant.

On this historic occasion of RBI@90, Team RBI rededicates itself to the cause of financial and price stability and economic growth of our country.

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