3. COVID-19: Measures by RBI

Prelims Level: Economics

Mains Level: GS-III Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment

Context:

- The Reserve Bank of India (RBI) has announced measures to fight economic disruptions caused by COVID19, including extension of the realisation period of export proceeds and allowing States to Borrow More.

Realisation Period of Export Proceeds:

- Presently, the value of the goods or software exports made by exporters is required to be realised fully and repatriated to the country within nine months from the date of exports.
- In view of the disruption caused by the pandemic, the time period for realisation and repatriation of export proceeds for exports made up to or on July 31, 2020, has been extended to 15 months from the date of export.
- The measure will enable exporters to realise their receipts, especially from COVID19 affected countries, within the extended period.
- This will also provide greater flexibility to exporters to negotiate future export contracts with buyers abroad.

Ways and means limit for the states:

- The RBI has formed an advisory committee to review the ways and means limit for State governments and union territories.
- Till the panel submits its report, the RBI has increased the ways and means advances limit by 30% for States and union territories.
- This would enable State governments to tide over the situation arising from the outbreak of the COVID19 pandemic.
- The revised limits will come into force with effect from April 1, 2020 and will be valid till September 30, 2020.

'Ways and Means Advances':

- It is a temporary facility to meet revenue mismatches - mismatches in receipts and payments of the government. Under this scheme, a government can avail itself of immediate cash from the RBI.

Counter Cyclical Capital Buffers (CCyB):

- The central bank has also deferred the implementation of counter cyclical capital buffers (CCyB) for banks.
- Based on the review and empirical analysis of CCyB indicators, RBI has decided that it is not necessary to activate CCyB for a period of one year or earlier, as may be necessary.

CCyB:

- Counter Cyclical Capital buffer is the capital to be kept by a bank to meet business cycle related risks.
- It is aimed to protect the banking sector against losses from changes in economic conditions.
- Banks may face difficulties in phases like recession when the loan amount doesn't return. To meet such situations, banks should have their own additional capital.
- This is an important theme of the Basel III norms.