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Impact of Repo Rate Changes During COVID-19 on Source of Income and Ease in Availing Loans on General Public in India

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ABSTRACT

The repo rate has a significant influence on a nation's economy because it is essential for managing cash flow in the market. The repo rate is governed and controlled by Indian monetary policy in accordance with market liquidity and inflation cash flow thereby the nation's inflation is significantly controlled by repo rates. It is due to this broad repo rate impact that there comes a necessity to assess how the changes during the pandemic period would affect the people. Survey based questionnaire was used to collect responses from 200 members across India. Analysis of the data collected were interpreted using regression, correlation and ANOVA. The findings of the study brought into view that source of income had been affected due to repo rate changes during COVID-19 period (2019-2021) and there was difficulty for people in availing loan during the aforementioned time frame.

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1.0 AN OVERVIEW

Nations have been greatly impacted by the COVID-19 outbreak, particularly because of the nationwide lock downs that have halted social and economic activity. The once-active planet has stopped buzzing, and all of its resources are now being used to address the unprecedented disaster. The virus has a wide-ranging impact since countries' economies have slowed down. The impact of such a pandemic was anticipated to range from 2.1% to 4.8% of global GDP in a 2019 WHO and World Bank report. As the world seems to be being swallowed by this pandemic, the prophesy appears to have come true.

The UN issued a warning that the corona virus pandemic is anticipated to have a severe negative impact on the world economy, most notably a projected fall in India's GDP growth to 4.8%

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for the current economy. The effects of the epidemic are evident everywhere, and the financial industry is no exception. The pandemic in particular compelled the global banking industry to change its monetary and fiscal policies in a significant way for the benefit of the general public. The reduction in the repo rate is one such policy.

After their first monetary policy committee (MCP) after the pandemic, the RBI announced the reductions in the repo rate by 75 basis points (bps), the reverse repo rate at 25 bps, the CRR reduction by 100 bps, the long-term repo operations to inject ₹1 lakh crore in liquidity, among other measures.

The aforementioned changes had a direct impact on private and state banks, and in turn, as people's purchasing power improved, borrowing became more affordable and the burden of loan repayment and interest payments decreased. With an increase in the amount of money in circulation, repo rate reductions steadily improved people's livelihoods.

With respect to that, this study aims to examine the influence of repo rate during this particular period on people and the economy as a whole in India.

1.1 Banking in India

The progressive liberalisation and globalisation of the economy, the growth and development of the financial system, restrictions on automated financing of the budget deficit, and a number of other developments had enabled the RBI to use indirect monetary policy instruments such as the bank rate, repo rate, and open market operations.

The primary monetary policy measures that the monetary authorities are actively following in order to bring down inflation include alterations to the CRR, repo, and reverse repo interest rates. These alterations have an instantaneous and direct impact on the amount of money available on the market, and they do so without bringing about any disruptions in the economy.

1.2 Repo Rate

When there is a funding gap in India, the Reserve Bank of India (the country's central bank) lends money to private banks at an interest rate known as the repo rate. Inflation is managed by monetary officials through the repo rate. To discourage bank borrowing during times of inflation, central banks raise the repo rate. This helps reduce inflation by limiting the flow of new currency into the market. The central bank switches to the opposite attitude if inflationary pressures weaken. Rates for repo and reverse repo are included in the liquidity adjustment facility (Rebello, 2022).

Inter-bank repo and RBI repo are the two types of repo currently in use in India. Inter-bank repos are allowed under specified circumstances and are used to raise money to cover short-term discrepancies between supply and demand for funds. Primary dealers may conduct both repo and reverse repo transactions in addition to banks. Non-bank entities are only authorised to participate in the repo market as lenders. To other eligible participants, they may make cash advances. Any kind of government security may be used in a repo. PSU bonds and private corporate securities may also be repossessed, but only if they are maintained in a depository in a dematerialized form and the transactions are carried out on authorised stock exchanges.

Repo and reverse repo sales are accessible to all Scheduled Commercial Banks; even though, Regional Rural Banks (RRBs) as well as Primary Dealers (PDs) having current accounts and SGL accounts at RBI, Mumbai are not eligible to participate. In the past, the RBI has referred to the absorbing and injecting of liquidity as repo and reverse repo, respectively.

Since the maturity of repo and reverse repo in India ranges from one to fourteen days, the RBI has used this instrument to manage short-term or daily liquidity. The bank rate and the repo/reverse repo rates set by the RBI have evolved over time into a kind of signalling rate that provides a corridor for the call money market. The Liquidity Adjustment Facility (LAF) operations, which indicate the daily impact on marginal liquidity in the system, also utilise repo and reverse repo rates. The market interprets any change in these rates, which make up the LAF interest rate corridor, as a change in the RBI's short-term interest rate policy even when the bank rate has remained constant (Joshi, 2012).

1.3 Need for the Study

The repo rate is a major factor in the economics of a country because of its importance in regulating the flow of money in the market. The Indian government's monetary policy determines and manages the repo rate based on market liquidity and inflationary cash flow. The repo rate also has an effect on banks' ability to borrow money; when the rate increases, the banks' borrowing capacity falls. Repo rates are a major factor in controlling inflation rates throughout the country. For instance, if inflation is excessive, the RBI may increase the repo rate to restrict the flow of cash in the market. The rate of inflation falls because a drop in cash flow causes a slowdown in investment and production capacity. As the RBI only reduces the repo rate when inflation rates fall, banks are driven to borrow money from the reserve bank.

On the other hand, there are certain negative consequences for the repo rate. As inflation rises, RBI raises the repo rate, which reduces cash flow and reduces industrial production capacity, which in turn increases the cost of vital goods and services and produces unemployment. In contrast, the RBI works to cut repo rates in an effort to attract more capital and boost market liquidity. The interest rates on loans offered by commercial banks and the repo rates of the RBI are inversely correlated; as the repo rates decline, so do the interest rates on loans.

As repo rates begin to decrease, investors borrow large sums of money from banks in order to invest it in a wide range of sectors, which ultimately helps to leverage the country's economy. On May 4, 2022, the repo rate was increased by the RBI by 40 basis points, taking it from 4% to 4.4% effective immediately. The Monetary Policy Committee (MPC) reached this decision unanimously, marking the end of the era of historically low interest rates.

The RBI has said that the measures were made to promote growth and achieve the 4% CPI inflation objective over the medium term. Shaktikanta Das, a Governor of RBI said, “As several storms hit together, our actions today are important steps to steady the ship.”

All the same, the average Indian has no idea what the repo rate is or how it affects them, despite the fact that the move is meant to reduce inflation so that there is no “collateral risk” and boost the economic development prospects.

Hence, it’s of utmost importance to know the influence of repo rate in the day-to-day activities of the common man (consumers and non-consumers alike) for their financial and non-financial transactions.

1.4 Statement of the Problem

Based on the need for the study, the statement of problem for the present study is “the impact of changes in repo rate during COVID-19 on general public in India”.

1.5 Research Questions

This project aims to answer the following research question:

- What impact did the changes in repo rate make on the lives of people in India during COVID-19?

The research further examines the implications of those changes in the said areas:

1) The source of income of people in India
2) Availing loans at prescribed interest rates set by Banks.

1.6 Research Objectives

1) To examine if the source of income was affected with changes to Repo rates and the implications of COVID-19 pandemic.
2) To investigate through survey methodology the ease or difficulty in availing loans at prescribed interest rates.

1.7 Limitations of the Study

- The study primarily focuses only the impact on general public whereas the repo rate changes affect many major sectors like banking and finance etc.
- The study only takes into account the pandemic period from the year 2019 to 2021 while the virus continues to exist till date.
- The opinions made through surveys are open to changes in the coming years due to the long-term effect of variable shifts in repo rate implementations.
- The effect on the Indian economy and public's financial position is influenced by various factors apart from repo rate and hence determining the status through just the impact of repo rate would be partial.

1.8 Review of Literature

Review of literature deals with the theoretical underpinnings and viewpoints of the repo rate, then discusses the notion of the repo rate, its numerous meanings, conceptual definitions, and contributing aspects. the upcoming section's goal is to outline and provide a concise picture of the development of the repo rate literature and the existing body of knowledge on the repo rate construct.

1.8.1 Monetary Policy

Bernanke and Reinhart (2004) discuss the micro-economic state is how monetary policy and asset price fluctuations interact. The broader financial markets, which include the "stock market, corporate and government bond markets, mortgage markets, markets for consumer credit, foreign exchange markets, and many more", are where monetary policy interventions have their most immediate and direct consequences is stated by him.

Kanagasabapathy (2001) stated that the "RBI has started relying more on indirect instruments, such as the repo rate, than it had previously, due to the emergence of the interest rate as an efficient variable in the transmission mechanism, as opposed to the past practise of more reliance on direct instruments (like CRR)."

1.8.2 Interest Rates Influence on Businesses

According to Pearce and Roley (1984), changes in interest rates may affect share prices via two channels: by altering expectations for future cash flows and by altering the rate at which the business would capitalise its projected future cash flows. They particularly claim that a fall in stock prices is caused by an increase in interest rates, and an increase in interest rates is caused by a rise in stock prices.

Hardouvelis (1987) states that there is "a negative correlation between stock prices and interest rate changes, which can be explained by unexpected changes in the money supply. According to the expected inflation hypothesis, stock prices drop as a result of rising nominal interest rates' inflation premium, which lowers after-tax real dividends."

1.8.3 Intervention of Banking Industry

Zhao, Casu, and Ferrari (2009) employed a balanced panel data set spanning the years 1992–2004 and a Malmquist Total Factor Productivity (TFP) index based on Data Envelopment Analysis (DEA). According to the empirical study, the Indian banking sector enjoyed continuous productivity growth following a period of adjustment that was mostly fueled by technical advancement.

A study by Goyal and Joshi (2012) revealed that small and local banks struggle to deal with the effects of the global economy; as a result, they require support, which is one of the causes for merger. Mergers were a strategic tactic for certain private banks to broaden their business.

1.8.4 Pandemic and Epidemic Impact

The possible economic effects of a pandemic brought on by a mutation in the avian influenza strain are estimated by Bloom, de Wit and Jose (2005) using the Oxford Economic Forecasting Model. Based on their assumptions, a mild pandemic would have a 20% chance of occurring, a 0.5% case fatality rate, and a 3% shock to consumer spending. Thereby proving that international shocks can affect open economies more easily.

A report of Barua (2020) offers an in-depth analysis of the existing and anticipated economic consequences of the COVID-19 pandemic. The article mapped the potential macroeconomic effects of the COVID-19 epidemic across time (both in the short and long term), including its influence on "production, supply chain, trade, investments, pricing, financing, exchange rates, growth, and cross-border cooperation".

1.8.5 Concept of Repo Rate, The Current Rate, and its Definitions

As per Tripathi (2023) report, repurchasing Option Rates, or "REPO" Rates in full, are frequently referred to as "Repurchase Agreements". Banks and other financial organisations require loans during hard times and charge interest on the borrowed money. The country's central bank, the RBI, loans money to commercial banks in exchange for a security commitment.

According to Dayal (2022) report at its meeting on, June 8, 2022, "the Monetary Policy Committee (MPC) decided to: raise the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 4.90 percent with immediate effect".

1.9 Definitions of Repo Rate

Authors	Definitions
Mishra (2022)	"The interest rate that the RBI charges when commercial banks borrow money from it is called the repo rate"
Dawra (2014)	"Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation."
Das and Mithra (2020)	"Repo or repurchase transaction is a collaterized lending i.e., banks borrow money from Reserve Bank of India to meet short term needs by selling securities to RBI with an agreement to re-purchase the same at predetermined rate and date. The rate charged by RBI for this transaction is called repo rate"
Reddy (2020)	"The rate at which banks borrow money from the RBI by selling their surplus government securities to the central bank (RBI) is known as "Repo Rate." Repo rate is short form of Repurchase Rate"
Smitha (2010)	"Repo is a money market instrument, which enables collateralized short-term borrowing and lending through sale or purchase operations in debt instruments. Under a repo transaction, a holder of securities sells them to an investor with an agreement to repurchase at a pre-determined date and rate"

The research's goals and purpose influence the definition that is used. It aims to investigate how changes in repo rate during COVID-19 influenced the general public as well as the entirety of the unified repo rate concept.

This study is based on the definitions provided by Mishra (2022) and Dawra (2014) where the repo rate is the rate at which commercial banks borrow money from RBI. Since the study is based in India and RBI is the central bank of the country authors of Indian origin and literatures specified by them are taken into account.

Imperatively, this study is highly influenced by the definition provided by Dawra (2014) "Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation". Since the study deals also with inflation and monetary aspects and how COVID-19 caused changed in both those fields this definition is adopted for the same.

2.0 RESEARCH METHODOLOGY

2.1 Research Design

For implementation to survey methods, using questionnaires is appropriate for gathering information to understand how fluctuations in repo rates during the years 2019–2021 (the peak of COVID-19) affected India's general populace. In order to get a sound conclusion regarding the influence of the repo rate while keeping the study's goals in mind, primary sources of data were gathered.

2.2 Survey Based Research

The proposed model is analysed with the sample of a small population constituting from various states in India. The survey method is considered as the most suitable tool for data collection, and it is also the most commonly used type of self-research report.

2.3 Method of Data Collection

For gathering information to answer the objectives a questionnaire was personally distributed to a sample population of persons from different geographical locations, different social backgrounds, and different economic backgrounds in India as part of the data collection process for 7 days.

2.4 Questionnaire

The five-point Likert scale is a particular kind of psychometric response scale where respondents rate their level of agreement with a statement, usually out of five: "(1) Disagree; (2) Disagree strongly; (3) Neither agree nor disagree; (4) Agree; and (5) Agree strongly" is used here to assess how repo rate adjustments have influenced the general public throughout the peak pandemic years of 2019–2021 with respect to the questionnaire.

2.5 Area of Study

Since geographically, economically, and socially the country is very diverse the adverse or positive impact of COVID-19 and the monetary changed happening during that time could be felt in different magnitude in different areas. The above facts make it relevant to base this study on people in India as COVID-19 affected throughout the developing country leading to the nation having felt its impact economically.

2.6 Sample Size

For the current study a sample population of 200 members across India are taken to better understand the study topic.

2.7 Statistical Tools Used

Regression, Coefficient correlation and ANOVA were the statistical tools that were used to analyse and interpret the data gathered to answer the research objectives through the use of SPSS v.18.0.

3.0 RESULT AND DISCUSSION

Regression analysis is implemented to analyse the implication of RBI involvement through repo rate with respect to its affect on the source of income of people and ease or difficulty in availing loans during peak pandemic period.

3.1 Regression

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.362[a]	0.721	0.109	1.861

a. Predictors: (Constant), Source of income was affected during peak pandemic period between 2019-2021, Getting loans at prescribed interest rates were difficult during the peak pandemic period between 2019-2021.

b. Dependent Variable: State your major source of income

The higher the R square, the higher is the variability and in the above regression table the value of R^2 is 72% showing significant variance of source of income being affected and availing of loans with respect to the major source of income of the respondents.

3.2 ANOVA

One way ANOVA is implemented to analyse the implication of RBI involvement through repo rate with respect to its affect on the source of income of people and ease or difficulty in availing loans during peak pandemic period.

Particulars	Occupational Profile				F-Value	Sig.
	Employed	Self Employed	Retired	Others		
Source of Income	4.11	4.25	4.12	4.22	1.586	0.021*
Availing Loans	4.08	4.20	4.18	4.16	0.890	0.045*

Since 'p' value is less than 0.05 for both the constructs, it can be inferred that there is a significant difference among respondents as regards the source of income and availing loans at prescribed interest rate on the basis of occupational profile at 5% level. Mean Scores reveal that respondents who belong to the occupational profile (self-employed) are the most affected with regards to the particulars.

3.3 Coefficient Correlations

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.400	0.389		11.310	0.000
	Source of income was affected during peak pandemic period between 2019-2021	-0.004	0.108	-0.003	-0.035	0.972
	Getting loans at prescribed interest rates were difficult during the peak pandemic period between 2019-2021	0.114	0.123	0.076	0.924	0.356

a. Dependent Variable: State your major source of income.

The above table indicates R^2 value to be 60.9% ($R^2 = 0.609$) of variance in source of income towards income being affected and ease of availing loans at prescribed interest rates. There is 1% level of significance since $p < 0.01$ thereby showing a significant positive impact of source of income being affected during peak pandemic period and difficulty in getting loans at prescribed interest rates during the period of 2019-2021.

4.0 CONCLUSION

The Study summarizes and concludes the project by theorizing the objectives of the project, the literatures that were reviewed, the research methodology adapted for answering the objectives, the data analysis and interpretation that was done on the gathered data through primary sources and stating the outcomes of the same.

4.1 Objectives Answered

The direct and indirect impact of repo rate changes, in line with the pandemic on source of income of people in India was investigated through the workings of the project. For many individual's bank interests and other financial institutions interest serve as additional income and in some case as major income. The objective of the study being "To examine if the source of income was affected with changes to Repo rates and the implications of COVID - 19 pandemic" was analysed through statistical tools to identify if there was indeed any effect and it was concluded that source of income was imperatively affected.

The decision to borrow funds from financial institutions or purchase commodities on deferred basis often lies on the interest changed on such borrowings. No individual would prefer to purchase assets or goods if there is high interest rate attached to the same. A high inflated economy would have a rather high interest rate present, combined with the pandemic's impact where the world economy was down it could be of a general conscience that people preferring to avail loans would be significantly less. Although governments had given subsidies and other relaxations on payment duration, an economy with low business and individual financial stability found it hard to make payments on its borrowings. The studies' other objective being "to investigate through survey methodology the ease or difficulty in availing loans at prescribed interest rates" was analysed through data interpreted from questionnaire. The study showcased and concluded the fact that there has indeed been significant difficulty in availing loans during the period between 2019-2021 with regard to the repo rate changes during COVID-19 period.

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