Economic disruptions by Coronavirus

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***Source**: The Hindu*

Manifest pedagogy: Covid-19 will have a major fallout vis-a-vis economic growth, demand and supply. It is a factor which will force structural changes in future of work, how we manage public policy and also what is a way of life.

In news: RBI has released the results of the 89th round of the Industrial Outlook Survey (IOS).

Dimensions:

- Economic disruptions caused by coronavirus
- Steps taken by RBI

Content:

Economic disruptions caused by coronavirus:

- Investors have feared that the spread of coronavirus would destroy economic growth.
- In the United States, the number of people filing for unemployment has hit a record high.
- Likewise, **oil has slumped to low prices not seen since June 2001**.
- According to the OECD estimates, **the world's economy could grow at its slowest rate since 2009** due to the COVID 19.
- A "**longer lasting and more intensive" outbreak could halve growth to 1.5% in 2020 as factories suspend their activity** and workers stay at home to try to contain the virus.
- Sectors such as **tourism, aviation, hospitality and trade are the** worst hit.

- The “**supply side contagion effect**” has impacted manufacturing, agriculture and the pharmaceutical industry.
- With the likely consumption slowdown, production is also going to be hit.

- Rating agencies, both global and domestic, are unanimous that the **Covid-19 pandemic will be an economic tsunami for India.**
- On March 26, 2020 finance minister Nirmala Sitharaman has announced a $23 billion package aimed at cushioning the disruption.
- But the **GDP growth is already at a decadal low and workers are seeing their wages erode** in recent times.
- **Moody’s** has slashed its **projection for India’s GDP growth** in calendar year 2020 from 5.3% to **2.5%.**
- In its **Global Macro Outlook 2020-21**, it has cited severe liquidity constraints in India’s banking and non-banking sectors as a hindrance to growth.
- The **domestic ratings agency Crisil** has slashed its base case GDP growth forecast for India in financial year 2021 from 5.7% to **5.2%.**
- It has warned that if the pandemic is not contained by April-June 2020, domestic consumption and investment would be affected.
- A **recession across Asia-Pacific is predicted due to disruptions in China.**
- The overall financial system remains burdened with weak balance sheets, which has led to downside of credit growth.

Steps taken by RBI:

- RBI has **lowered the policy repo rate** by 75 basis points **to 4.4 percent.**
- It has directed all banks and housing finance companies

not to take instalments on long term loans for three months. This is applicable for all term loans, including agricultural term loans, retail and crop loans.

- The **reverse repo rate has been lowered by 90 basis points.**

- Taken with the recent liquidity measures, the **liquidity infusion by RBI** is an unprecedented Rs 6.5 trillion, or **about 3.2 percent of GDP of the economy.**
- It has said that it will conduct **auctions of targeted term repos of up to three years' tenor** for a total amount of up to Rs 1 trillion.
- The cash reserve ratio (**CRR) has been reduced to 3 percent** of the deposit base from 4 percent earlier which would **pump in liquidity of about Rs 1.37 trillion** uniformly across the banking system.
- The requirement of **minimum daily CRR balance maintenance is reduced from 90 percent to 80 percent**, as a one-time measure till June 26, 2020.
- It has allowed **foreign branches of domestic banks to trade in the offshore non-deliverable forwards (NDF) markets** in order to "improve efficiency of price discovery."
- Through a notification, it has **increased the Ways and Means Advances (WMA) limit** for state governments and union territories **by 30 percent** till September 30, 2020.
- The **time period for realization 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** (at present it is 9 months from the date of exports).
- The measure will enable the exporters to realise their receipts from COVID-19 affected countries within the extended period and also provide greater flexibility to the exporters to negotiate future export contracts with

buyers abroad.