

RBI Industrial Outlook Survey

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Source: *The Hindu*

Manifest pedagogy: RBI and government policy and estimates with respect to growth, inflation and other dynamics such as employment-rural and urban have great significance in terms of policy coordination and implementation. RBI is equally concerned with promotion of economic growth.

In news: RBI has released IOS

Placing it in syllabus: Money and Banking

Static dimensions: About Industrial Outlook Survey (IOS)

Current dimensions:

- Banking sector stress in india
- Problems of NBFC, falling employment,
- Summary of report

Content:

About Industrial Outlook Survey (IOS):

- The Industrial Outlook Survey (IOS) of the manufacturing sector has been **conducted by the Reserve Bank of India (RBI) since 1998** on a quarterly basis.
- The survey mainly **seeks to capture the qualitative assessment on the business environment** for the current quarter and their expectations for the next quarter.
- The **manufacturing sector companies with paid-up capital of over Rs 5 million** are selected and responses through questionnaires are collected.
- The qualitative responses are based on a **set of indicators relating to demand conditions, financial conditions, employment and price situation.**

- Aggregation of the responses are mainly done in two ways:
 - The **Net responses (NR)**, i.e, the difference between proportions of optimistic (increase) and pessimistic (decrease) responses are calculated. A higher value of NR shows an improved optimism.
 - The second measure is a composite index known as the **Business Expectations Index (BEI)** which is calculated as the weighted NRs of nine business indicators.

Problems of NBFC, banking sector:

- According to the Fitch ratings, the **stress on the non-banking sector is to have an impact on banks' asset quality** and may lead to solvency risk.
- **Indian banks have thin buffers** against systemic NBFC stress and hence are prone to solvency risk.
- Hence a **negative outlook on Indian banks**, has been maintained due to continued weak performance and COVID 19 pandemic affecting the global economy.
- Non-bank stress coupled with rising macro headwinds pose further **challenges for asset quality, particularly at state banks which continue to experience capital constraints, delays in bad-loan recoveries and poor earnings.**
- More capital is needed to insulate the banks' weak balance sheets and to sustain loan growth.

Summary of report:

- According to the latest survey on industrial outlook conducted for January-March, 2020, **industries have assessed that they are walking into a highly pessimistic phase** in terms of demand and overall financial situation due to COVID 19.
- Demand conditions have **deteriorated for the manufacturing sector.**

- **Fitch Ratings has slashed India's growth forecast** to a 30-year low of **2 percent**, from 5.1 percent predicted earlier for the fiscal year ending March 2021.
- The Asian Development Bank (**ADB**) **has projected India's growth to 4 percent** in FY21.
- Most banks are indicating a **sharp deterioration in the asset quality** scenario which reflects in a worsening economy.
- According to the economists the bad assets in the banking sector could spike significantly on account of the prolonged lockdown which could **badly hurt small and medium-sized enterprises (SMEs) and microfinance loans**.
- Corporate Non-performing Assets (NPAs) are showing an increasing trend.
- According to the latest RBI Consumer Confidence survey, consumer confidence, as measured by the **current situation index (CSI)**, in early March 2020 remained broadly close to the all-time low.
- Sentiments on the **general economic situation, employment scenario and household income** has remained pessimistic.
- Apart from the continuing resilience of agriculture and allied activities, most other sectors of the economy are adversely impacted.
- The disruption to the world's economies caused by the COVID-19 pandemic is expected to **wipe out 195 million jobs worldwide in the second quarter of 2020**.
- About **400 million people working in the informal economy in India are at risk of falling deeper into poverty**.
- Huge losses are expected across different income groups but especially in **upper-middle income countries**, which far exceeds the effects of the 2008-9 financial crisis.
- Sectors which are at most risk include accommodation and food services, manufacturing, retail, and business and administrative activities.
- The International Labour Organization (**ILO**) in its latest report has described the coronavirus pandemic as **"the worst global crisis since World War II"**.

The report has suggested large-scale, integrated policy measures which focus on **four pillars**:

- supporting enterprises, employment and incomes;
- stimulating the economy and jobs;
- protecting workers in the workplace;
- using social dialogue between government workers and employers to find solutions