RBI's Annual Report

Why in news?

The Reserve Bank of India (RBI) has released its annual report.

What are RBI's assessments?

- The RBI's assessment of the economic landscape and its prognosis for near-term prospects posit a stark picture of:
    1. Demand hollowed out by the severe shock to private consumption,
    2. Public finances strained by the imperative of funding mitigation measures,
    3. Anaemic appetite for investment among corporates and
    4. Credit-flow-impeding risk aversion among bankers.
- The RBI said that the Covid-19-induced economic contraction is almost certain to extend through the July-September period.
- Reimposition of lockdowns in the country in July and August damped the tentative revival in momentum seen in the preceding two months.
- The RBI said that several recent high-frequency indicators pointed to an unprecedented retrenchment in activity.
- It noted that the consumption which survived the shock was now manifesting.
- It said so as essential spending with services including transport and hospitality are almost completely eviscerated.

What would the governments do?

- The Central government has attempted 'pandemic proofing' demand by increasing its net revenue expenditure by a third in the first quarter.
- However, it is likely to find itself strapped for resources in the coming months.
- So, it would have little leeway to continue to undergird momentum.
- States are expected to find their finances so tightly squeezed as to have to cut capital spending.

What does the RBI suggest?

- The RBI suggests that the government should help crowd in private investment through targeted public investment.

- This public investment could be funded by monetising assets in steel, coal, power, land and railways.
- But the private companies are too highly in debt and keen to use gains from the government's corporate tax rate cut to repay loans.
- So, it is hard to see the government raising much out of its privatisation efforts.

What could be done?

- The Centre may opt to marshal its meagre resources more prudently.
- It should wait for the curve of infections to start flattening before committing to any further stimulus spending.
- A revival will ensue only once consumers regain confidence to go out and spend.

Source: The Hindu

