

# Virus-driven Recession Looms Large



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pandemic, leading to a lockdown across several states.

"RBI is likely to continue with injecting durable liquidity into the system to ensure transmission of rates. We do expect rate cut in April 3rd, 2020 policy or earlier, which can be as high as 50 bps," said Sameer Narang, chief economist at Bank of Baroda.

RBI had kept its policy rates unchanged in the February policy citing higher inflationary risks throughout the first half of fiscal year 2021. The MPC had projected CPI inflation for the first half of FY21 at 5.4-5% compared with 4-3.8% earlier. Its projection on growth for fiscal 2021 stands at 6%— in the range of 5.5-6% in the first half and 6.2% in the third quarter.

RBI governor says India is not immune to the virus outbreak, announces measures to improve liquidity in markets, does not rule out a rate cut soon

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Central bank governor Shaktikanta Das on Monday announced measures to boost liquidity in the foreign exchange and domestic markets, even as he stopped short of cutting interest rates unlike his global peers.

The Reserve Bank of India (RBI) will conduct long-term repo operations (LTRO) worth up to ₹1 trillion at the current policy rate and do another forex swap on 23 March to provide dollar liquidity to the market. The steps fell short of investors' expectations.

The market has been speculating about an imminent rate cut from RBI after central banks across the world took a series of stimulus measures to shield their economies from the impact of the coronavirus pandemic.

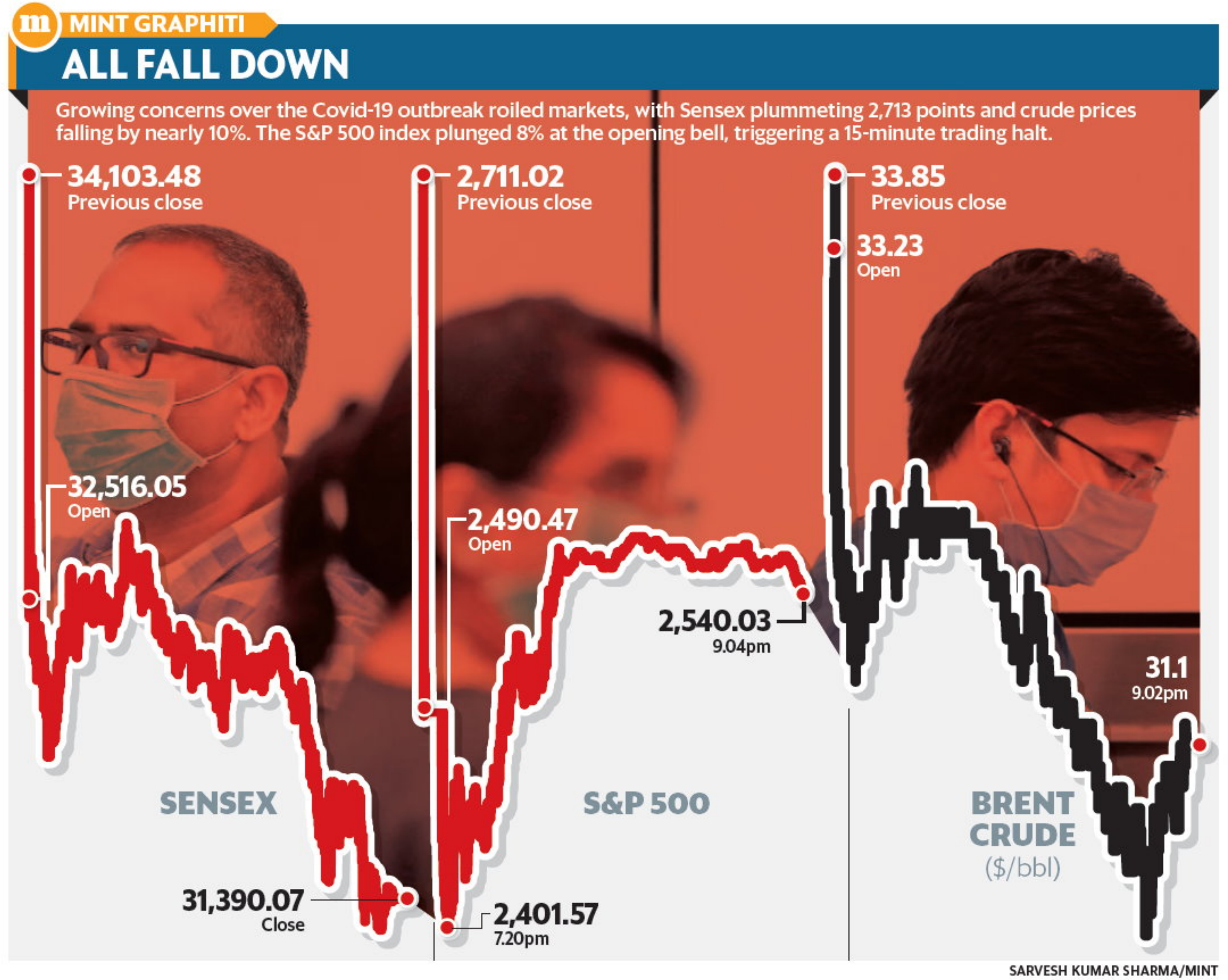
The yield on the benchmark 10-year bond closed down 11 basis points to 6.21%, while the rupee fell 0.49% to 74.27 against the dollar.

On Sunday, the US Federal Reserve slashed benchmark interest rate by a percentage point to near zero and also promised to purchase another \$700 billion worth of treasury

bonds and mortgage-backed securities. In addition, it entered into an agreement with five other foreign central banks—the Bank

of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank—to ensure dollars are available around the world via swap lines.

While India could be impacted due to the slowdown in global growth which stands reduced to 0.4-1.5%, the quantum of impact will be assessed at the MPC meeting next month, Das added. India has already reported over 100 cases of the novel coronavirus



SARVESH KUMAR SHARMA/MINT



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"We will use the various policy instruments from time to time, depending on the requirement. Our response will be calibrated. Our effort is to see that our responses are neither premature nor delayed," he said.

Das said that RBI stands ready to act and the rate cut decision will be taken by the monetary policy committee (MPC) which is slated to meet next month. "Only MPC can cut rates, don't rule out anything," he said, adding that policy space should be used appropriately and be suitably timed to optimize impact.

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