

**भारतीय रिज़र्व बैंक**
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RBI Bulletin - February 2022

The Reserve Bank of India today released the [February 2022](#) issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement, February 10, 2022; one speech; four articles; and current statistics.

The four articles are: I. State of the Economy; II. Zombies and the Process of Creative Destruction; III. Bad Banks as Good Samaritans: Lessons from Cross-Country Experience for India; and IV. Impact of COVID-19 on Sentiments of Indian Manufacturers.

I. State of the Economy

Domestic macroeconomic conditions are striking a path that is diverging from global developments. In India, the recovery in economic activity is gaining strength and traction as it emerges from the third wave. Both manufacturing and services remain in expansion with optimism on demand parameters and uptick in consumer and business confidence. As businesses return to a new normal, the job landscape is expected to improve. Farm sector conditions remain robust *albeit* with some signs of rural demand slackening. Even as monetary policy remains accommodative, global spillovers have led to a tightening of financial conditions.

II. Zombies and the Process of Creative Destruction

This article examines how zombie firms (or perpetually loss-making firms) respond to counter-cyclical monetary policy in India. It also explores whether monetary policy hinders the process of creative destruction by allocating credit flows to zombie firms during periods of economic slowdown.

Highlights:

- Zombies are found to be more leveraged than non-zombies and the average cost of funds of zombies is more sensitive to changes in the monetary policy rate than non-zombies.
- During surplus liquidity conditions, however, credit flows to zombies remain relatively subdued than flows to non-zombies, implying that pro-growth counter-cyclical monetary policy does not hinder the creative destruction process.

- The sensitivity of investment activity to borrowings from banks is estimated to be lower for zombies, which indicates that they use borrowed resources more for survival than for undertaking new investment, dampening the effectiveness of monetary policy at the margin.

III. Bad Banks as Good Samaritans: Lessons from Cross-Country Experience for India

The article analyses establishment of the National Asset Reconstruction Company Ltd. (NARCL) in India against the backdrop of cross-country practices to understand the characteristics that helped in their success.

Highlights:

- Evidence world-wide suggests that a centralised bad bank can help in substantial stress reduction and has various systemic benefits, including freeing up banks' resources for more important core operations, positive signalling to investors and customers, avoiding fire sales, and complementing the activities of the existing public and private asset reconstruction companies (ARCs).
- Challenges faced by these institutions include how to relieve banking stress without encouraging moral hazard; how to minimise the cost to the government exchequer and how to arrive at a valuation that is fair to both the acquiring entity as well as the seller.
- Evaluated against the backdrop of international best practices, the paper suggests that the NARCL in India has many favourable design and structure elements. Going forward, continued commitment, professionalism and transparency in operation will help in making the process cost and time effective.

IV. Impact of COVID-19 on Sentiments of Indian Manufacturers

As forward-looking surveys play an important role in supporting policy decisions, major economies have used these surveys to capture the outlook of the enterprises in the aftermath of the pandemic. This article encapsulates the evolution of sentiments of Indian manufacturers during the pandemic as captured through the quarterly Industrial Outlook Survey (IOS) conducted during 2019-21 and gauge the expected recovery process in the manufacturing sector.

Highlights:

- The sudden surge of COVID-19 pandemic slowed down the recovery of demand conditions as reflected in the sentiments of the respondents.
- With the easing of lockdown in a phased manner, a pickup in demand was seen. Just when the manufacturers' outlook started looking up after subsidence of the first wave, the second wave of the pandemic clouded their sentiments once again. However, the impact was less pronounced and the situation improved quickly with gradual resumption of normalcy.

- Manufacturers are seen to be optimistic about recovery in the near future with prompt sector-specific relief provided by the government, proactive monetary policy measures initiated by the Reserve Bank and rapid vaccinations.
- Scenario analysis suggests that manufacturing sector may achieve its pre-COVID trend in near-term, though it may take some time to return to its long-term trend path.

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