RBI maintains status quo in Fifth Bi-monthly Monetary Policy Statement, 2019-20

Policy repo rate remains unchanged at 5.15%

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.15 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 4.90 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 5.40 per cent. The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target. These decisions of RBI are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The RBI policy rates so far

Components	06th June 2018	01st Aug 2018	05th Oct 2018	5th Dec 2018	07th Feb 2019	04th April 2019	06th June 2019	7th Aug 2019	4th Oct 2019	5th Dec 2019
CRR	4.00%	4.00%	4.00 %	4.00%	4.00%	4.00 %	4.00 %	4.00 %	4.00%	4.00 %
Repo Rate	6.25%	6.50%	6.50 %	6.50%	6.25%	6.00 %	5.75 %	5.40 %	5.15%	5.15 %

Reverse Repo Rate	6.0%	6.25%	6.25 %	6.25%	6.0%	5.75 %	5.50 %	5.15 %	4.90%	4.90 %
WPI Inflation	3.2% (Apr-18)	5.77% (Jun-18)	4.53 % (Aug-18)	5.28% (Oct-18)	3.8% (Dec-18)	2.9% (Feb-19)	3.1% (Apr-19)	2% (Jun-19)	1.1% (Aug-19)	0.2% (Oct-19)
CPI inflation\@	4.6% (Apr-18)	5.00% (Jun-18)	3.69 % (Aug-18)	3.31% (Oct-18)	2.2% (Dec-18)	2.6% (Feb-19)	2.9% (Apr-19)	3.2% (Jun-19)	3.2% (Aug-19)	4.6% (Oct-19)
IIP growth	4.4% (Mar-18)	3.2% (May-18)	6.60 % (Jul-18)	4.5% (Sep-18)	0.5% (Nov-18)	1.7% (Jan-19)	(-) 0.1% Mar-19	3.1% (May -19)	4.3% (Jul-19)	(-4.3% (Sep-19)
Real GDP growth	7.4% 2018-19)$##	7.4% 2018-19)$###	7.4% 2018-19 $####	7.4% 2018-19 $####^	7.4% 2019-20 $####^*	7.2% 2019-20	7.0% 2019-20	6.9% 2019-20	6.1%2019-20	5% 2019-20

Source: PHD Research Bureau, compiled from various sources, Note:, , #Data for Gross domestic product for Q2 of 2014-15, ^Data for Oct 2014, ^^ Data for November 2014 , ^^^December 2014," Data for Jan 2015, "" Data for Feb 2015, *Data for Sep 2014, ** Data for Oct 2014 and *** Data for Nov 2014.@ Data for Dec 2014. Note: The Ministry of Statistics & Programme Implementation has released the new series of national accounts, revising the base year from 2004-05 to 2011-12. With this backdrop, real GDP growth for 2012-13 is estimated at 5.1% and 6.9% for 2013-14, $Advance estimates of national income 2014-15 MOSPI, @*** Data for August 2015 @#* Feb 2016 @#** January 2016 @^^^^Data for Sep 2015; RBI projection of GVA growth for 2015-16, \@CPI inflation for the respective month of the year. ^&* GVA growth for 2017-18 as per First Bi-monthly Monetary Policy Statement, 2017-18, , ^&*** GVA growth for 2017-18 as per Third Bi-monthly Monetary Policy Statement, 2017-18. ^&^ GVA growth for 2017-18 as per Fourth Bi-monthly Monetary Policy Statement, 2017-18. $## Projections by RBI in Second Bi-monthly Monetary Policy Statement, 2018-19, $### Projections by RBI in Third Bi-monthly Monetary Policy Statement, 2018-19, $#### Projections by RBI in Fourth Bi-monthly Monetary Policy Statement, 2018-19, $####^ Projections by RBI in Fifth Bi-monthly Monetary Policy Statement, 2018-19, $####^* Projections by RBI in Sixth Bi-monthly Monetary Policy Statement, 2018-19, ~ Projections by RBI in First Bi-monthly Monetary Policy Statement, 2019-20

Snapshot of the Fifth Bi-monthly Monetary Policy Statement, 2019-20

Since the MPC's meeting in October 2019, global economic activity has remained subdued, though some signs of resilience are becoming visible. Among the advanced economies (AEs), GDP growth in the US picked up in Q3 on strong private investment and personal consumption expenditure. More recent data, however, indicate that factory activity contracted for the fourth consecutive month in November, while retail sales and industrial production declined in October.

On the domestic front, gross domestic product (GDP) growth moderated to 4.5 per cent year-on-year (y-o-y) in Q2:2019-20, extending a sequential deceleration to the sixth consecutive quarter. Real GDP growth was weighed down by a sharp slowdown in gross fixed capital formation (GFCF), cushioned by a jump in government final consumption expenditure (GFCE). Excluding GFCE, GDP growth would have been at 3.1 per cent. Growth in real private final consumption expenditure (PFCE) recovered from an 18-quarter trough. The drag from net exports eased on account of a sharper contraction in imports than in exports.

Contraction in output of eight core industries – which constitute 40 per cent of the index of industrial production (IIP) – extended into the second consecutive month in October and became more pronounced, dragged down by coal, electricity, cement, natural gas and crude oil. However, output of fertilisers rose sharply, reflecting expectations of robust sowing activity in the rabi season.

Development of Secondary Market for Corporate Loans – setting up of Self-Regulatory Body: As recommended by the Task Force on Development of Secondary Market for Corporate Loans, the Reserve Bank will facilitate the setting up of a self-regulatory body (SRB) as a first step towards the development of the secondary market for corporate loans. The SRB will be responsible, *inter-alia*, for standardising documents, covenants and practices related to secondary market transactions in corporate loans and promoting the growth of the secondary market in line with regulatory objectives.

- Primary (Urban) Co-operative Banks – Exposure Limits and Priority Sector Lending: With a view to reducing concentration risk in the exposures of primary (urban) co-operative banks (UCBs) and to further strengthen the role of UCBs in promoting financial inclusion, it is proposed to amend certain regulatory guidelines relating to UCBs. The guidelines would primarily relate to exposure norms for single and group/interconnected borrowers, promotion of financial inclusion, priority sector lending, etc. These measures are expected to strengthen the resilience and sustainability of UCBs and protect the interest of depositors. An appropriate timeframe will be provided for compliance with the revised norms. A draft circular proposing the above changes for eliciting stakeholder comments will be issued shortly.

- Primary (Urban) Co-operative Banks - Reporting to Central Repository of Information on Large Credits (CRILC): The Reserve Bank has created a Central Repository of Information on Large Credits (CRILC) of scheduled commercial banks, all India financial institutions and certain non-banking financial companies with multiple objectives, which, among others, include strengthening offsite supervision and early recognition of financial distress. With a view to building a similar database of large credits extended by primary (urban) co-operative banks (UCBs), it has been decided by RBI to bring UCBs with assets of ₹500 crores and above under the CRILC reporting framework. Detailed instructions in this regard will be issued by December 31, 2019.

- Comprehensive Cyber Security Framework for Primary (Urban) Cooperative Banks (UCBs) – A Graded Approach: The Reserve Bank had prescribed a set of baseline cyber security controls for primary (Urban) cooperative banks (UCBs) in October 2018. On further examination, it has been decided to prescribe a comprehensive cyber security framework for the UCBs, as a graded approach, based on their digital depth and interconnectedness with the payment systems landscape, digital products offered by them and assessment of cyber security risk. The framework would mandate implementation of progressively stronger security measures based on the nature, variety and scale of digital product offerings of banks. Such measures would, among others, include implementation of bank specific email domain; periodic security assessment of public facing websites/applications; strengthening the cybersecurity incident reporting mechanism;

strengthening of governance framework; and setting up of Security Operations Center (SOC).

- International Financial Service Centre Banking Unit (IBU) : With a view to facilitating ease of operations for IBUs and having regard to the Liquidity Coverage Ratio being maintained by them, it has been decided to allow IBUs to:
  - open foreign currency current accounts of their corporate borrowers subject to the provisions of FEMA 1999 and regulations issued thereunder, wherever applicable; and
  - accept fixed deposits in foreign currency of tenor less than one year from non-bank entities and consequently remove the current restriction on premature withdrawal of deposits.

However, the current prohibition on acceptance of retail deposits including from high net worth individuals (HNIs) will continue. Necessary instructions are being issued shortly by RBI.

- Review of NBFC-P2P Directions: The Reserve Bank had issued directions for Non-Banking Financial Company-Peer to Peer Lending platform (NBFC-P2P) on October 4, 2017. At present, the aggregate limits for both borrowers and lenders across all P2P platforms stand at ₹10 lakh, whereas exposure of a single lender to a single borrower is capped at ₹50,000 across all NBFC-P2P platforms. A review of the functioning of the lending platforms and lending limit was carried out and it has been decided that in order to give the next push to the lending platforms, the aggregate exposure of a lender to all borrowers at any point of time, across all P2P platforms, shall be subject to a cap of ₹50 lakh.

- New Pre-Paid Payment Instruments (PPI) : Prepaid Payment Instruments (PPIs) have been playing an important role in promoting digital payments. To further facilitate its usage, it is proposed to introduce a new type of PPI which can be used only for purchase of goods and services up to a limit of ₹10,000. The loading / reloading of such PPI will be only from a bank account and used for making only digital payments such as bill payments, merchant payments, etc.

Outlook

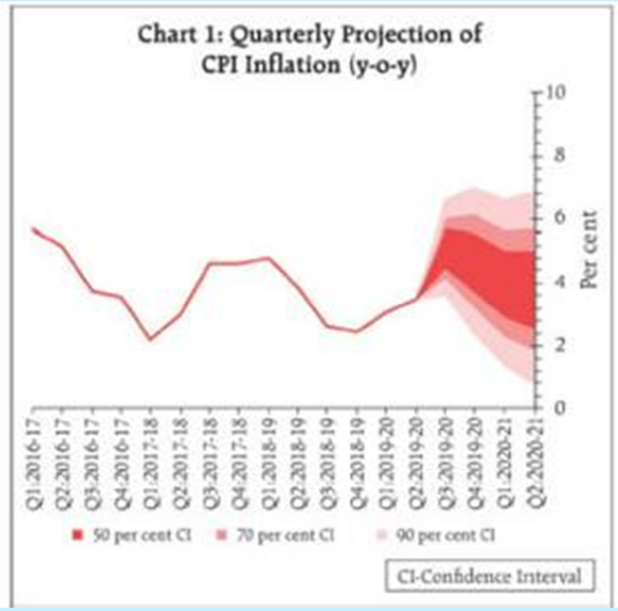
Real GDP growth for 2019-20 is revised downwards from 6.1 per cent in the October policy to 5.0 per cent – 4.9-5.5 per cent in H2 and 5.9-6.3 per cent for H1:2020-21. While, CPI inflation projection is revised upwards to 5.1-4.7 per cent for H2:2019-20 and 4.0-3.8 per cent for H1:2020-21, with risks broadly balanced

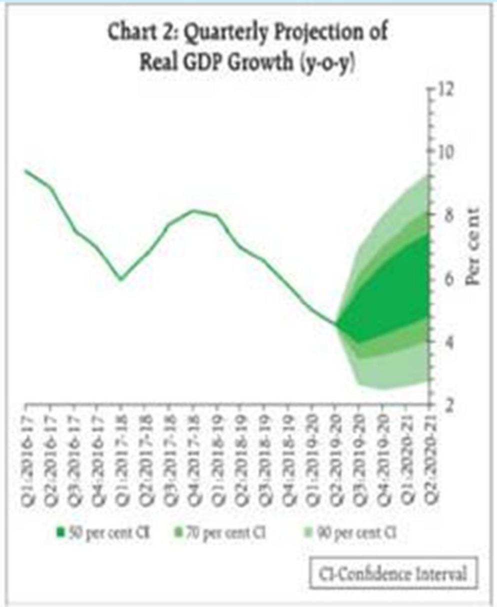
Real GDP growth for 2019-20 in the October policy was projected at 6.1 per cent – 5.3 per cent in Q2:2019-20 and in the range of 6.6-7.2 per cent for H2:2019-20 – with risks evenly balanced; and 7.2 per cent for Q1:2020-21. GDP growth for Q2:2019-20 turned out to be significantly lower than projected. Various high frequency indicators suggest that domestic and external demand conditions have remained weak. Based on the early results, the business expectations index of the Reserve Bank's industrial outlook survey indicates a marginal pickup in business sentiments in Q4.

On the positive side, however, monetary policy easing since February 2019 and the measures initiated by the Government over the last few months are expected to revive sentiment and spur domestic demand. Taking into consideration these factors, real GDP growth for 2019-20 is revised downwards from 6.1 per cent in the October policy to 5.0 per cent – 4.9-5.5 per cent in H2 and 5.9-6.3 per cent for H1:2020-21. While improved monetary transmission and a quick resolution of global trade tensions are possible upsides to growth projections, a delay in revival of domestic demand, a further slowdown in global economic activity and geo-political tensions are downside risks.

Going forward, the inflation outlook is likely to be influenced by several factors. First, the upsurge in prices of vegetables is likely to continue in immediate months; however, a pick-up in arrivals from the late kharif season along with measures taken by the Government to augment supply through imports should help soften vegetables prices by early February 2020. Second, incipient price pressures seen in other food items such as milk, pulses, and sugar are likely to be sustained, with implications for the trajectory of food inflation. Third, both the 3-month and 1-year ahead inflation expectations of households polled by the Reserve Bank have risen and these latent sentiment upsides are being reflected in other surveys as well. Fourth, domestic financial markets have exhibited volatility.

Fifth, domestic demand has slowed down, which is being reflected in the softening of inflation excluding food and fuel. Sixth, crude oil prices are expected to remain range bound, barring any supply disruptions due to geo-political tensions. Taking into consideration these factors, the CPI inflation projection is revised upwards to 5.1-4.7 per cent for H2:2019-20 and 4.0-3.8 per cent for H1:2020-21, with risks broadly balanced





Source: RBI

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Warm Regards,

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