RBI maintains status quo in Sixth 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 (February 6, 2020) 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 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	05th Oct 2018	5th Dec 2018	07th Feb 2019	04th April 2019	06th June 2019	7th Aug 2019	4th Oct 2019	5th Dec 2019	6TH February 2020
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Repo Rate	6.50%	6.50%	6.25%	6.00%	5.75%	5.40%	5.15%	5.15%	5.15%
Reverse Repo Rate	6.25%	6.25%	6.0%	5.75%	5.50%	5.15%	4.90%	4.90%	4.90%
WPI Inflation	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)	2.6 (Dec-19)
CPI inflation\@	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)	7.4 (Dec-19)

IIP growth	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)	1.8 (Nov-19)
Real GDP growth	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	6% 2020-21 S%%####

Source: PHD Research Bureau, PHDCCI 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, S%%####~ Projections by RBI in Sixth Bi-monthly Monetary Policy Statement, 2020-21

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

Since the MPC met last in December 2019, global economic activity has remained slow-paced, but is getting differentiated across geographies. Among the key advanced economies (AEs), the US economy grew by 2.1 per cent in Q4:2019, the same pace as in Q3, with slack in consumer spending offset by government expenditure. More recent data, however, indicates that both production and imports of capital goods – two key pointers of investment activity – continued to contract in November/December, though at a moderate pace compared with the previous month.

On the domestic front, the first advance estimates (FAE) released by the National Statistical Office (NSO) on January 7, 2020 placed India’s real gross domestic product (GDP) growth for 2019-20 at 5.0 per cent. In its January 31 release, the NSO revised real GDP growth for 2018-19 to 6.1 per cent from 6.8 per cent given in the provisional estimates of May 2019. On the supply side, growth of real gross value added (GVA) is estimated at 4.9 per cent in 2019-20 as compared with 6.0 per cent in 2018-19.

Industrial activity, measured by the index of industrial production (IIP), improved in November after contracting in the previous three months. The output of core industries returned to positive territory in December after four months of contraction, buoyed by five out of eight of its constituents i.e. coal; refinery products; fertilisers; steel; and cement.

- Revised Liquidity Management Framework- In order to improve communication on the Reserve Bank's liquidity management framework and procedures, the Press Release detailing Money Market Operations (MMO) would be modified suitably to show both the daily flow impact as well as the stock impact of the Reserve Bank's liquidity operations; a quantitative assessment of durable liquidity conditions of the banking system on a fortnightly basis would be published with a lag of one fortnight; and periodic consultations will be conducted with market participants and other stakeholders.

- Incentivising Bank Credit to Specific Sectors- Alongside sustained efforts to improve monetary transmission, the Reserve Bank is actively engaged in revitalizing the flow of bank credit to productive sectors having multiplier effects to support impulses of growth. As a part of this, it has now been decided that scheduled commercial banks will be allowed to deduct the equivalent of incremental credit disbursed by them as retail loans for automobiles, residential housing and loans to micro, small and medium enterprises (MSMEs), over and above the outstanding level of credit to these segments as at the end of the fortnight ended January 31, 2020 from their net demand and time liabilities (NDTL) for maintenance of cash reserve ratio (CRR). This exemption will be available for incremental credit extended up to the fortnight ending July 31, 2020.

- Framework to Establish Self-Regulatory Organisation (SRO) for Digital Payment System- The Reserve Bank will put in place a framework for establishing an SRO for the digital payment system by April 2020 with a view to fostering best practices on security, customer protection and pricing, among others. The SRO will serve as a two-way communication channel between the players and the regulator/supervisor.

- Pan India Cheque Truncation System (CTS)- The Cheque Truncation System (CTS), which is currently operational at the major clearing houses of the country, has stabilised well and it has made large efficiency gains. In view of this, a pan India CTS will be made operational by September 2020.

- Digital payments in India have been growing rapidly. The Reserve Bank shall construct and periodically publish a composite "Digital Payments Index" (DPI) to capture the extent of digitisation of payments effectively. The DPI would be based on multiple parameters and shall reflect accurately the penetration and deepening of various digital payment modes. The DPI will be made available from July 2020 onwards.

- Deepening of Rupee Interest Rate Derivative Market- RBI proposed that all rupee IRD transactions of market makers and their related entities globally, shall be accounted for in India. This measure would encourage higher non-resident participation, enhance the role of domestic market makers in the offshore market, improve transparency, and achieve better regulatory oversight.

Outlook

Real GDP growth for 2019-20 was projected in the December 2019 policy at 5.0 per cent – 4.9-5.5 per cent in H2. GDP growth for H1:2020-21 was projected at 5.9-6.3 per cent. While, CPI inflation was projected at 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 was projected in the December 2019 policy at 5.0 per cent – 4.9-5.5 per cent in H2. GDP growth for H1:2020-21 was projected at 5.9-6.3 per cent. For 2020-21, the growth outlook will be influenced by several factors. First, private consumption, particularly in rural areas, is expected to recover on the back of improved rabi prospects. The recent rise in food prices has shifted the terms of trade in favour of agriculture, which will support rural incomes.

Second, the easing of global trade uncertainties should encourage exports and spur investment activity. The breakout of the coronavirus may, however, impact tourist arrivals and global trade.

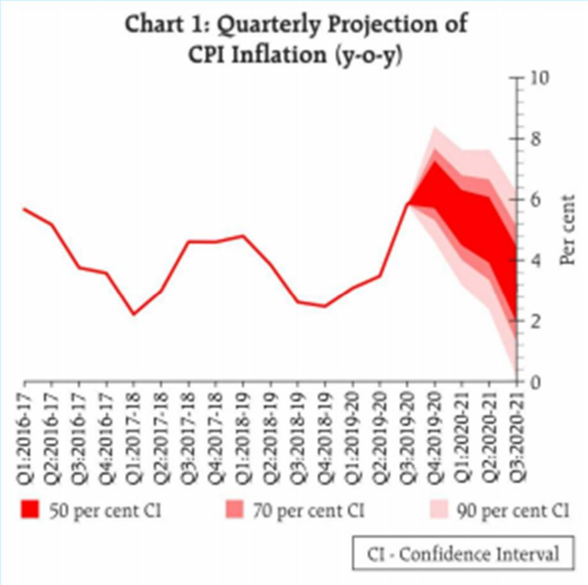
Third, monetary transmission in terms of a reduction in lending rates and financial flows to the commercial sector has progressed vis-à-vis the last policy, and this could spur both consumption and investment demand.

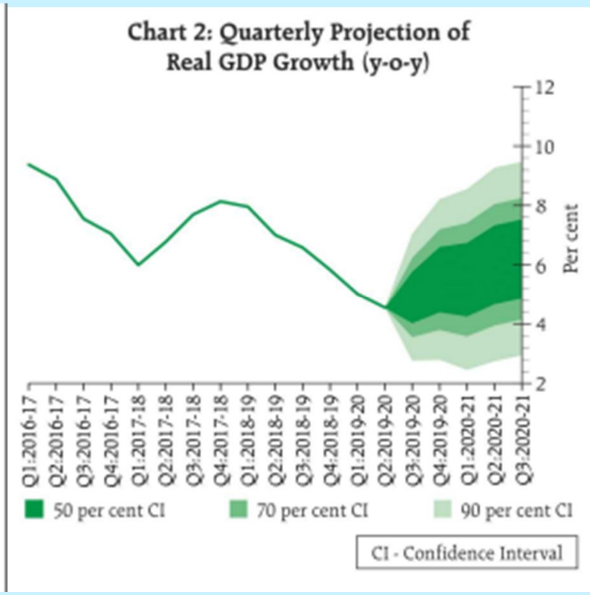
Fourth, the rationalisation of personal income tax rates in the Union Budget 2020-21 should support domestic demand along with measures to boost rural and infrastructure spending.

The Monetary Policy Committee (MPC) notes that inflation has surged above the upper tolerance band around the target in December 2019, primarily on the back of the unusual spike in onion prices. Going forward, the trajectory of inflation excluding food and fuel needs to be carefully monitored as the pass-through of remaining revisions in mobile phone charges, the increase in prices of drugs and pharmaceuticals and the impact of new emission norms play out and feed into inflation formation. The MPC anticipates that the combination of these factors may keep headline inflation elevated in the short-run, at least through

H1:2020-21. Overall, the inflation outlook remains highly uncertain. Accordingly, the MPC will remain vigilant about the potential generalisation of inflationary pressures as several of the underlying factors cited earlier appear to be operating in concert.

The path of inflation is, however, elevated and on a rising trajectory through Q4:2019-20. The outlook for inflation is highly uncertain at this juncture. On the other hand, economic activity remains subdued and the few indicators that have moved up recently are yet to gain traction in a more broad-based manner. Given the evolving growth-inflation dynamics, the MPC felt it appropriate to maintain status quo. Accordingly, the MPC decided to keep the policy repo rate unchanged and persevere with the accommodative stance as long as necessary to revive growth, while ensuring that inflation remains within the target.





Source: PHD Research Bureau, PHDCCI compiled from RBI

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Warm Regards,

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