RBI reduces repo rate in Fourth Bi-monthly Monetary Policy Statement, 2019-20

Policy repo rate reduced from 5.40% to 5.15% (25 basis points cut)

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points (bps) from 5.40 per cent to 5.15 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands revised to 4.90 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 5.40 per cent. The MPC also decided to continue with an 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 April 2018	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
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Repo Rate	6.00%	6.25%	6.50%	6.50%	6.50%	6.25%	6.00%	5.75%	5.40%	5.15%
Reverse Repo Rate	5.75%	6.0%	6.25%	6.25%	6.25%	6.0%	5.75%	5.50%	5.15%	4.90%
WPI Inflation	2.5% (Feb-18)	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)

CPI inflation\@	4.44% (Feb-18)	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)
IIP growth	7.5% (Jan-18)	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)
Real GDP growth	7.4% (2018-19)$#	7.4% 2018-19)$##	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

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 First Bi-monthly Monetary Policy Statement, 2018-19, $## 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 Fourth Bi-monthly Monetary Policy Statement, 2019-20

Global economic activity has weakened further since the MPC's last meeting in August 2019. Heightened uncertainty emanating from trade and geo-political tensions continues to cloud the outlook. Among advanced economies (AEs), the slowdown in the US economy in Q2:2019 appears to have extended into Q3:2019, weighed down by softer industrial production. In the Euro area too, incoming data suggest that activity may have moderated further in Q3, with retail sales declining and manufacturing PMI remaining in contraction for the eighth consecutive month in September. The UK economy decelerated in Q2; the contraction in industrial production and soft retail sales in July suggest that the loss of speed has continued into Q3 as well. In Japan, the loss of momentum in Q2 spilled over into Q3, albeit cushioned by a fiscal stimulus and frontloaded consumer spending ahead of a planned sales tax hike.

The macroeconomic performance of major emerging market economies (EMEs) was weighed down by a deteriorating global environment in Q3. The Chinese economy appears to have slowed down in

Q3 as well, while in Russia, economic activity ticked up in Q2, though still subdued consumer sentiment and weak industrial production may restrain momentum, going forward. Economic activity in both South Africa and Brazil rebounded in Q2, emerging out of contraction in the previous quarter; however, this nascent recovery faces both domestic and external headwinds.

Crude oil prices were pulled down by softer demand, amidst adequate supplies in early August. Prices remained range bound until mid-September when supply disruptions on account of an escalating geo-political conflict resulted in a spike which has abated faster than expected. Gold prices remained elevated on safe haven demand. Central banks became more accommodative with inflation remaining below targets across major AEs and EMEs.

On the domestic front, turning to Q2:2019-20, the initial delay in the onset of the south-west monsoon rapidly caught up from July. By September 30, 2019, the cumulative all-India rainfall surpassed the long period average (LPA) by 10 per cent. The first advance estimates of major kharif crops for 2019-20 have placed production of foodgrains 0.8 per cent lower when compared with the last year's fourth advance estimates. Looking ahead at the rabi season, the live storage of water in major reservoirs was 115 per cent of the live storage of the corresponding period of the previous year on September 26, 2019 and 121 per cent of average storage level over the last ten years. Abundant rains in August and September have led to improved soil moisture conditions in most parts of the country, particularly central India, compared to the corresponding period of the last year. Overall, the prospects of agriculture have brightened considerably, positioning it favourably for regenerating employment and income, and the revival of domestic demand.

Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI)

Taking into consideration the important role played by MFIs in delivering credit to those in the bottom of the economic pyramid and enable them to play their assigned role in a growing economy, it is proposed to revise these criteria as under:

1. Increase the household income limit for borrowers of NBFC-MFIs from the current level of ₹ 1.00 lakh for rural areas and ₹ 1.60 lakh for urban/semi urban areas to ₹ 1.25 lakh and ₹ 2.00 lakh, respectively.
2. Raise the lending limit from ₹ 1.00 lakh to ₹ 1.25 lakh per eligible borrower.

Non-resident Rupee Account – A Review of Policy-

The Reserve Bank has been taking steps for popularizing the cross-border transactions in Indian rupee (INR), especially in respect of external commercial borrowing (ECB), trade credit and exports and imports, thereby reducing the exchange risk for persons resident in India. Continuing these efforts, it has been decided, in consultation with the Government of India, to enhance the scope of non-interest bearing Special Non-resident Rupee (SNRR) Account by permitting persons resident outside India to open such accounts to facilitate rupee denominated ECB, trade credit and trade invoicing. Further, restriction on the tenure of SNRR account, which is currently 7 years, is also proposed to be removed for the aforesaid purposes. Guidelines in this regard would be issued within a month.

Liquidity Support for the Proposed 24x7 National Electronic Funds Transfer (NEFT) System

It was announced in the third bi-monthly Monetary Policy of August 7, 2019 that the Reserve Bank of India will make available the facility of National Electronic Funds Transfer on 24x7 basis for members of public from December, 2019. In order to facilitate smooth settlement of these transactions in the accounts of the banks maintained with the Reserve Bank, it has been decided that the Reserve Bank will extend the collateralised liquidity support, which is currently available till 7.45 pm on NEFT working days, round the clock. This will help in better funds management by banks.

Payment System Data Dissemination

The Reserve Bank publishes data (in the RBI Bulletin and on the RBI Website) on various payment and settlement system indicators. In line with the recommendation of the Committee on Deepening of Digital Payments and given the rapid developments in the digital payments space, it has been decided to disseminate more granular information on payment data covering the payment systems authorised by the Reserve Bank. With this, the entire gamut of payment systems data will be available in the RBI Bulletin/Website.

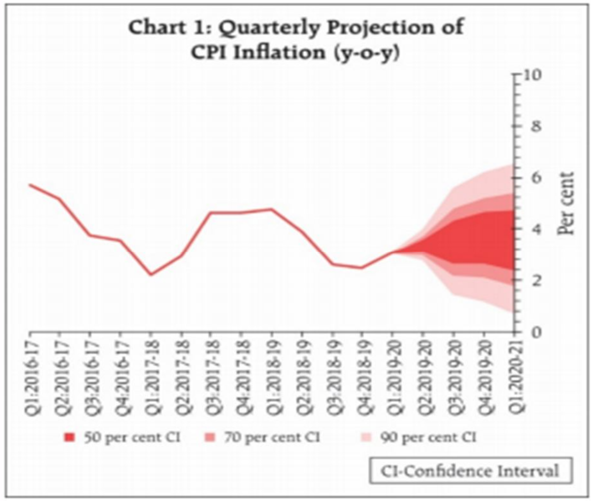
Expanding and Deepening of Digital Payments Ecosystem

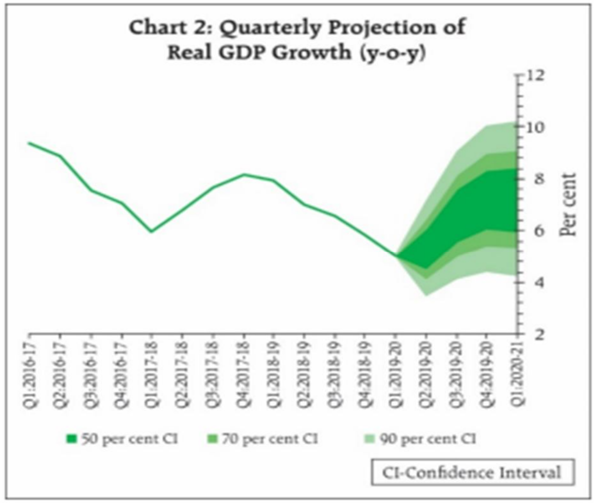
With a view to expanding and deepening the digital payments ecosystem, it has been decided that State/UT Level Bankers Committees (SLBCs/ UTLBCs) shall identify one district in their respective States/UTs on a pilot basis in consultation with banks and stakeholders. The identified district may be allocated to a bank with significant footprint which will endeavour to make the district 100% digitally enabled. This would enable every individual in the district to make/receive payments digitally in a safe, secure, quick, affordable and convenient manner. Guidelines in this regard will be issued shortly.

Outlook

Real GDP growth for 2019-20 is revised downwards from 6.9 per cent in the August policy to 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; GDP growth for Q1:2020-21 is also revised downwards to 7.2 per cent.

Real GDP growth for 2019-20 in the August policy was projected at 6.9 per cent – in the range of 5.8-6.6 per cent for H1:2019-20 and 7.3-7.5 per cent for H2 – with risks somewhat tilted to the downside; GDP growth for Q1:2020-21 was projected at 7.4 per cent. GDP growth for Q1:2019-20 was significantly lower than projected. Various high frequency indicators suggest that domestic demand conditions have remained weak. The business expectations index of the Reserve Bank's industrial outlook survey shows muted expansion in demand conditions in Q3. Export prospects have been impacted by slowing global growth and continuing trade tensions. On the positive side, however, the impact of monetary policy easing since February 2019 is gradually expected to feed into the real economy and boost demand. Several measures announced by the Government over the last two months are expected to revive sentiment and spur domestic demand, especially private consumption. Taking into consideration the above factors, real GDP growth for 2019-20 is revised downwards from 6.9 per cent in the August policy to 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; GDP growth for Q1:2020-21 is also revised downwards to 7.2 per cent.





Source: RBI

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