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

## Policy repo rate reduced from 5.75% to 5.40% (35 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 35 basis points (bps) from 5.75 per cent to 5.40 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands revised to 5.15 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 5.65 per cent. The MPC also decided to maintain the accommodative stance of monetary policy. 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 | 7th Feb 2018 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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% | 6.00% | 6.25% | 6.50% | 6.50% | 6.50% | 6.25% | 6.00% | 5.75% | 5.40% |
| Reverse Repo Rate | 5.75% | 5.75% | 6.0% | 6.25% | 6.25% | 6.25% | 6.0% | 5.75% | 5.50% | 5.15% |
| WPI Inflation | 3.6% (Dec-17) | 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) |
| CPI inflation\@ | 5.2% (Dec-17) | 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) |
| IIP growth | 8.4% | 7.5% | 4.4% | 3.2% | 6.60% | 4.5% | 0.5% | 1.7% | (-) | 3.1% |

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|---|---|---|---|---|---|---|---|---|---|---|
| | (Nov-17) | (Jan-18) | (Mar-18) | (May-18) | (Jul-18) | (Sep-18) | (Nov-18) | (Jan-19) | 0.1% Mar-19 | (May-19) |
| Real GDP growth | 6.6% ^&^* | 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 |

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 Third Bi-monthly Monetary Policy Statement, 2019-20

Global economic activity has slowed down since the meeting of the MPC in June 2019, amidst elevated trade tensions and geo-political uncertainty. Among advanced economies (AEs), GDP growth in the US decelerated in Q2:2019 on weak business fixed investment. In the Euro area too, GDP growth moderated in Q2 on worsening external conditions. Economic activity in the UK was subdued in Q2 with waning consumer confidence on account of Brexit related uncertainty and weak industrial production. In Japan, available data on industrial production and consumer confidence suggest that growth is likely to be muted in Q2.

Economic activity remained weak in major emerging market economies (EMEs), pulled down mainly by slowing external demand. The Chinese economy decelerated to a multi-year low in Q2, while in Russia subdued economic activity in Q1 continued into Q2 on slowing exports and retail sales. In Brazil, the economy is struggling to gain momentum after contracting in Q1 on weak service sector activity and declining industrial production. Economic activity in South Africa appears to be losing pace in Q2 as the manufacturing purchasing managers' index (PMI) contracted for the sixth month in succession in June and business confidence remained weak

Crude oil prices fell sharply in mid-May on excess supplies from an increase in non-OPEC production, combined with a further weakening of demand. Consequently, extension of OPEC production cuts in early July did not have much impact on prices. Gold prices have risen sharply since the last week of

May, propelled by increased safe haven demand amidst rising downside risks to growth and a worsening geo-political situation. Inflation remained benign in major advanced and emerging market economies

On the domestic front, the south-west monsoon gained intensity and spread with the cumulative rainfall 6 per cent below the long-period average (LPA) up to August 6, 2019. In terms of its spatial distribution, 25 of the 36 sub-divisions received normal or excess rainfall as against 28 sub-divisions last year. The total area sown under kharif crops was 6.6 per cent lower as on August 2 than a year ago. The live storage in major reservoirs on August 1 was at 33 per cent of the full reservoir level as compared with 45 per cent a year ago. Rainfall during the second half of the season (AugustSeptember) has been forecast to be normal by the India Meteorological Department (IMD).

**Measures to enhance credit flow to NBFCs:** It has now been decided by RBI to take following further measures to enhance credit flow to the NBFCs:

- **Harmonisation of single counterparty exposure limit for banks' exposure to single NBFCs with general single counterparty exposure limit** --Under the revised guidelines on large exposure framework (LEF) that came into effect from April 1, 2019, a bank's exposure to a single NBFC is restricted to 15 per cent of its Tier I capital, while for entities in the other sectors the exposure limit is, 20 percent of Tier I capital of the bank, which can be extended to 25 per cent by banks' Boards under exceptional circumstances. As a step towards harmonisation of the counterparty exposure limit to single NBFC with that of the general limit, it has been decided to raise a bank's exposure limit to a single NBFC to 20% of Tier-I capital of the bank.
- **Credit to the Priority Sector – Permitting banks to on-lend through NBFCs--**With a view to further increasing the credit flow to certain priority sectors which contribute significantly to the economic growth in terms of export and employment, and recognizing the role played by NBFCs in providing credit to these sectors, it has been decided to allow, subject to certain conditions, bank lending to registered NBFCs (other than MFIs) for on-lending to Agriculture (investment credit) up to ₹10.0 lakhs; Micro and Small Enterprises up to ₹ 20.0 lakh and housing up to ₹ 20.0 lakh per borrower (up from ₹10.0 lakh at present) to be classified as priority sector lending

**Introduction of stripping/reconstitution facility for State Development Loans (SDLs):** As a debt manager to the States in terms of Section 21A of RBI Act 1934, the Reserve Bank has been making efforts to develop the SDL market in both primary and secondary segments. The extension of the Scheme of Non-Competitive Bidding and aggregators/facilitators to SDLs are some of the efforts taken by RBI in this direction. In continuation of these efforts, it has been decided to introduce the stripping/reconstitution facility for SDLs. This measure will be implemented in consultation with the respective State governments.

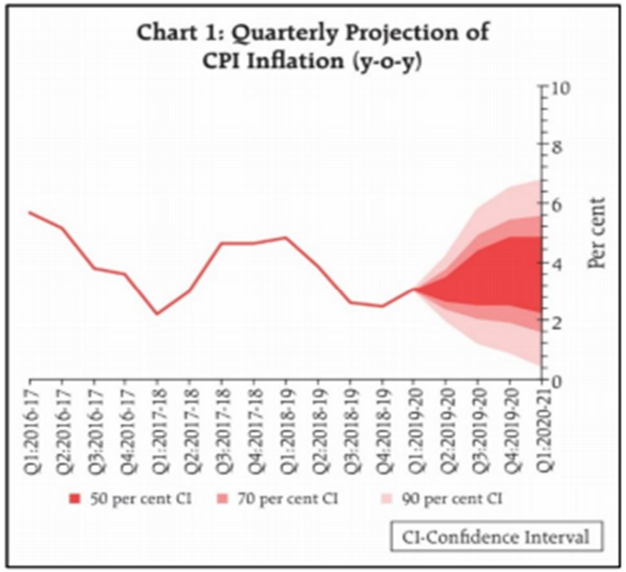
**Round-the-Clock Availability of National Electronic Funds Transfer System:** Currently, the National Electronic Funds Transfer (NEFT) payment system operated by the Reserve Bank as a retail payment system is available for customers from 8.00 am to 7.00 pm on all working days of the week (except 2nd and 4th Saturdays of the month). As mentioned in the Payment System Vision 2021 document, the Reserve Bank will make available the NEFT system on a 24x7 basis from December 2019. This is expected to revolutionise the retail payments system of the country.

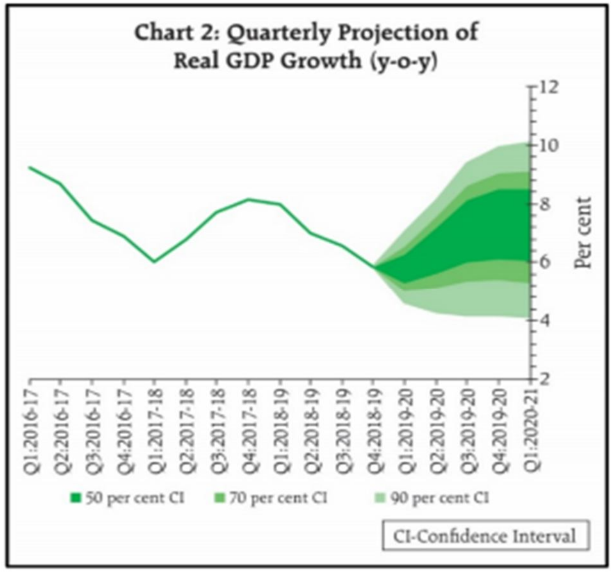
**'On-tap' Authorisation for Retail Payment Systems:** As announced in the Statement on Developmental and Regulatory Policies of June 6, 2018, the Reserve Bank published a policy paper on January 21, 2019 for public consultation on minimising concentration risk in retail payment systems from a financial stability perspective. Comments/feedback received from a wide array of individuals, public and private entities, institutions and industry associations suggested the need to encourage more players to participate in and promote panIndia payment platforms. Accordingly, in order to benefit from diversification of risk as also to encourage innovation and competition, it has been decided to offer 'on tap' authorisation to entities desirous to function/operate/provide platforms for Bharat Bill Payment Operating Unit (BBPOU); Trade Receivables Discounting System (TReDS); and White Label ATMs (WLAs).

**Outlook**

Real GDP growth for 2019-20 is revised downwards from 7.0 per cent in the June policy to 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 is projected at 7.4 per cent

In the MPC's June resolution, real GDP growth for 2019-20 was projected at 7.0 per cent – in the range of 6.4-6.7 per cent for H1:2019-20 and 7.2-7.5 per cent for H2 – with risks evenly balanced. Various high frequency indicators suggest weakening of both domestic and external demand conditions. The Business Expectations Index of the Reserve Bank's industrial outlook survey shows muted expansion in demand conditions in Q2, although a decline in input costs augurs well for growth. The impact of monetary policy easing since February 2019 is also expected to support economic activity, going forward. Moreover, base effects will turn favourable in H2:2019-20. Taking into consideration the above factors, real GDP growth for 2019-20 is revised downwards from 7.0 per cent in the June policy to 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 is projected at 7.4 per cent




Source: RBI

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Warm Regards,

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