7 February 2020

Sixth Bi-monthly Monetary Policy Statement for 2019-20 (7 February 2020)

RBI Repo Rate (6 February 2020 to 6 April 2017)

Sl No.	Date	Repo Rate	Increase/Decrease
1	**6 February 2020**	**5.15**	**No Change**
2	5 December 2019	5.15	No Change
3	4 October 2019	5.15	25 basis point decrease↓
4	7 August 2019	5.40	35 basis point decrease↓
5	6 June 2019	5.75	25 basis point decrease↓
6	4 April 2019	6.00	25 basis point decrease↓
7	7 February 2019	6.25	25 basis point decrease↓
8	5 December 2018	6.50	No change
9	5 October 2018	6.50	No change
10	1 August 2018	6.50	25 basis point increase↑
11	6 June 2018	6.25	25 basis point increase↑
12	5 April 2018	6.00	No change
13	7 February 2018	6.00	No change
14	6 December 2017	6.00	No change
15	4 October 2017	6.00	No change
16	2 August 2017	6.00	25 basis point decrease↓
17	7 June 2017	6.25	No change
18	6 April 2017	6.25	No change

Note: Repo rate *increase* is highlighted in 'red'↑ and *decrease* in 'green'↓ colour.
Source: Compiled from various Monetary Policy Statements.

Monetary Policy Committee (MPC) on 6 February 2020 decided to:

- Keep the policy repo rate unchanged at 5.15 per cent.
- To continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
- Consequently, the reverse repo rate remains unchanged at 4.90 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 5.40 per cent.

Reasons for the stance :

- The MPC notes that economy continues to be weak and the output gap remains negative.
- While recognizing that path of inflation is elevated and uncertain in future, the MPC states that the economic activity remains subdued.
- Given the evolving growth-inflation dynamics, the MPC felt it is appropriate to maintain status quo.
- The MPC decided to keep the policy repo rate unchanged and continue with the accommodative stance as long as necessary to revive growth, while ensuring that inflation remains within the target.
- The MPC recognizes that there is policy space available for future action.

Outlook for Growth

- Growth in GDP in Q2:2019-20 slumped to 4.5%; which was 5.0 per cent in Q1:2019-20.
- For 2020-21, economic growth will be influenced by many factors – private consumption in rural areas crucially depends on 'rabi' prospects.
- Domestic exports and investment activity will depend on future trend of global trade pattern; the breakout of the coronavirus may, however, impact tourist arrivals and global trade.
- Future economic growth will also crucially depend on the monetary transmission in terms of a reduction in lending rates and financial flows to the commercial sector.
- It is yet to see how the variation in personal tax rates changes and measures to boost rural and infrastructure spending in the Union Budget 2020-21 impact domestic demand.

Growth Projections for 2020-21 in 6 February 2020 Monetary Policy

Year/Quarter/Half	Growth Projections	Remark on Risk Outlook
For the entire 2020-21	6.0	The inflation outlook remains highly uncertain.
H1:2020-21	5.5-6.0	
Q3:2020-21	6.2	

Economic Growth Projections in Monetary Policies:

Monetary Policy date	Overall Real GDP Growth Projections	Remarks on Risk Outlook
6 February 2020	**6.0**	**The inflation outlook remains highly uncertain.**
5 December 2019	5.0	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.
4 October 2019	6.1	With risks evenly balanced
7 August 2019	6.9	With risks somewhat tilted to the downside
6 June 2019	7.0	With risks evenly balanced
4 April 2019	7.2	With risks evenly balanced

In 5 December, 2019 Monetary Policy, the RBI has revised its growth projections as follows:

Year/Quarter	Projected Growth Rate(s)
For the entire 2019-20	5.0
2019-20(H2)	4.9-5.5
2020-21(H1)	5.9-6.3

Earlier, in 4 October 2019 Monetary Policy, the RBI growth projections were as follows:

The quarter-wise growth rates are projected as follows:

Year/Quarter	Projected Growth Rate(s)
2019-20(Q2)	5.3
2019-20(H2)	6.6-7.2
2020-21(Q1)	7.2

Inflation Outlook

- Inflation has surged above the upper tolerance band around the target in December 2019 majorly due to the onion price increase. In December 2019, 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. The actual inflation outcome for Q2 at 5.8 per cent overshot projections by 70 bps, primarily due to the intensification of the onion price shock in December 2019 due to unseasonal rains in October-November 2019.
- The salutary effects on headline inflation are, however, likely to be tempered by hardening of prices of other food items, notably those of pulses and proteins.
- Meanwhile adjustments to telecom charges are impairing cost-push pressures to CPI inflation excluding food and fuel.
- The recent pick up in prices of non-vegetable food items, specifically in milk due to a rise in input costs, and in pulses due to a shortfall in kharif production, are likely to sustain-these factors could impart some upward bias to overall food prices.
- Crude oil prices are likely to remain volatile due to unabating geo-political tensions in the Middle East and uncertain global economic outlook. Domestic financial markets remain volatile reflecting both global and domestic factors, which may have an influence on the inflation outlook.
- Going forward, the trajectory of inflation excluding food and fuel needs to be carefully monitored as the pass-through of remaining revisions in the mobile phone charges, the increase in drug prices 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.

CPI Projection in February 2020 Monetary Policy

Sl No.	Quarter/Half and Year	CPI Inflation Projections (in per Cent)
1	Q4:2019-20	6.5
2	H1:2020-21	5.4-5.0
3	Q3:2020-21	3.2

CPI Projection in December 2019 Monetary Policy

Sl No.	Quarter/Half and Year	CPI Inflation Projections (in per Cent)
1	H2:2019-20	5.1-4.7
2	H1:2020-21	4.0-3.8

CPI Projection in October 2019 Monetary Policy

Sl No.	Quarter/Half and Year	CPI Inflation Projections (in per Cent)
1	Q2:2019-20	3.4
2	H2:2019-20	3.5-3.7
3	Q1:2020-21	3.6

CPI projection in August 2019 Monetary Policy

Sl No.	Quarter/Half and Year	CPI Inflation Projections (in per Cent)
1	Q2:2019-20	3.1
2	H2:2019-20	3.5-3.7
3	Q1:2020-21	3.6

Global Economy

- 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.
- In the Euro area, economic activity slowed down in Q4:2019 as France and Italy shrank unexpectedly amid waning consumer confidence.
- Growth momentum in the UK appears to have weakened in Q4:2019 as reflected in a decline in industrial production and tepid retails sales.
- The Japanese economy was weighed down in Q4:2019 by weak retail sales as reflected in subdued consumer spending in the wake of the sales tax hike in October 2019. Industrial production in Japan was pulled down by muted global demand.
- Among Emerging Market Economies (EMEs), the Chinese economy slowed down to a 29-year low of 6.1 per cent caused by sluggish domestic demand and prolonged trade tensions. Russia also faced a loss of momentum in activity in Q4:2019, with industrial production easing, although private consumption may have provided some cushion. In Brazil, activity seems to have slowed down, as reflected in a contraction in industrial production and depressed retails sales. The South African economy recorded a growth of -0.6 per cent in Q3:2019 and is likely to have also contracted in Q4:2019 as industrial production slumped and household spending remained subdued amidst lingering consumer pessimism.

Crude Oil and Gold Price Trends

- Crude oil and gold prices increased in early January 2020, sparked by the US-Iran confrontation, but both softened from mid-January as geo-political tensions eased.
- By end-January 2020, crude oil prices dipped due to sell-offs triggered by the outbreak of the coronavirus.
- Gold prices, however, inched up towards end-January 2020 because of safe haven demand.

Industrial Growth Trend

- The Reserve Banks' industrial outlook survey points to weak demand condition facing the manufacturing sector in Q3:2019-20. The RBI's business expectation survey, however, suggests an improvement in Q4:2019 corroborated by the manufacturing purchasing manager's index (PMI) for January 2020 which picked up to 55.3 from 51.2 in November 2019.
- The Index of Industrial Production (IIP) shows some improvement in December 2019 after four months of contraction buoyed by five out of eight of its constituents – coal, refinery products, fertilizers, steel and cement.

Financial Market Trend

• Global financial markets remained resilient in December 2019 and for the most part of January 2020 as thawing US-China trade relations and improved prospects of an orderly Brexit buoyed investors' sentiment.

• Equity markets rallied across Advanced Economies (AEs) and Emerging Market Economies (EMEs), turning bearish towards end-January 2020 with the outbreak of the coronavirus as markets braced up for the likely adverse impact on growth prospects, particularly in China.

• Bond yields which has hardened in the US towards the end 2019 as investors turned to riskier assets, softened in January 2020, especially after the US Fed left the policy rate unchanged and assured the extension of repo operations. In the Euro area, bond yields sank further into negative territory in January 2020. Yields also softened across several EMEs. In currency markets, the US dollar strengthened in January 2020 against major advanced economies. EME currencies which were generally trading with an appreciating bias, have depreciated since the last week of January 2020.

Mansoon Trend

• Rabi sowing has been higher by 9.5 per cent up to 31 January 2020 compared with a year ago. The north-east mansoon rainfall was above normal.

• Storage in major reservoirs –the main source of irrigation during the rabi season-was 70 per cent of the full reservoir level (as on 30 January 2020) as compared with 45 per cent a year ago.

• Horticulture production is estimated to have risen 0.8 per cent to a record level in 2019-20. Production of vegetables also shows some uptick due to higher production of potatoes, tomatoes and onions.

Indicators of Urban and Rural Demand

• While Tractor sales grew by 2.4 per cent in December 2019 after ten months of decline, motorcycle sales continued to contract.

• Domestic air passenger traffic (an indicator of urban demand) posted double digit growth in November 2019 followed by a modest growth December 2019.

• Passenger vehicle sales continued to contract. The PMI services index improved to 55.5 in January 2020 from 52.7 in November 2019.

Liquidity Trend

• Overall liquidity remained in surplus in December 2019 and January 2020.

• Average daily net absorption under the Liquidity Adjustment Facility (LAF) amounted to INR 2.61 lakh crore in December 2019.

• In January 2020, the average daily net absorption of surplus liquidity increased to INR 3.18 lakh crore.

• The RBI conducted four auctions involving the simultaneous purchase of long-term and sale of short-term government securities under Open Market Operations (OMOs) for a notified amount of INR 10,000 crore each during December and January (23 and 30 December 2019 and 6 and 23 January 2020).

• The Weighted Average Call rate (WACR) traded below the policy repo rate (on an average) by 10 bps in December 2019 and by 19 bps in January 2019.

External Sector Outlook

• Export growth continued to contract in November-December 2019, reflecting the slowdown in global trade.
• Import growth slumped in November-December 2019, with contraction in both oil and non-oil non-gold imports. While the latter reflected the underlying weakness in domestic demand and was spread across categories such as transport equipment, coal, iron and steel and chemicals, outgoes on account of oil imports were lower due to a cut back in oil import volume.
• Gold imports also declined in December 2019. On the financing side, net foreign direct investment (FDI) increased to USD 24.4 billion in April-November 2019 from USD 21.2 billion a year ago.
• Net foreign portfolio investment was of the order of USD 8.6 billion in 2019-20 (up to 4 February 2020) as against net outflows of USD 14.2 billion in the same period last year.
• India's foreign exchange reserves were at USD 471.4 billion on 4 February 2020- an increase of USD 58.5 billion over end-March 2019.

Developmental and Regulatory Policies

1. Revised Liquidity Management Framework

Based on a report 'Internal Working Group to Review the Liquidity Management Framework' (26 September 2019), key elements of the revised framework are set out below:

• Liquidity management is the operating procedure of monetary policy; the weighted average call rate (WACR) will continue to be its operating target. The liquidity management corridor is retained, with the marginal standing facility (MSF) rate as its upper bound (ceiling) and the fixed rate reverse repo rate as the lower bound (floor), with the policy repo rate in the middle of the corridor. The width of the corridor remains unchanged at 50 basis points – the reverse repo rate being 25 basis points below the repo rate and the MSF rate 25 basis points above the repo rate.
• With the WACR being the single operating target, the need for specifying a one-sided target for liquidity provision of one percent of net demand and time liabilities (NDTL) does not arise. Accordingly, the daily fixed rate repo and four 14-day term repos every fortnight being conducted, at present, are being withdrawn. However, the Reserve Bank will ensure adequate provision/absorption of liquidity as warranted by underlying and evolving market conditions - unrestricted by quantitative ceilings - at or around the policy rate.
• Instruments of liquidity management will include fixed and variable rate repo/reverse repo auctions, outright open market operations (OMOs), forex swaps and other instruments as may be deployed from time to time to ensure that the system has adequate liquidity at all times.

- A 14-day term repo/reverse repo operation at a variable rate and conducted to coincide with the cash reserve ratio (CRR) maintenance cycle would be the main liquidity management tool for managing frictional liquidity requirements. The main liquidity operation would be supported by fine-tuning operations, overnight and/or longer, to tide over any unanticipated liquidity changes during the reserve maintenance period. In addition, the Reserve Bank will conduct, if needed, longer-term variable rate repo/reverse repo operations of more than 14 days.
- The current requirement of maintaining a minimum of 90 per cent of the prescribed CRR on a daily basis will continue. Standalone Primary Dealers (SPDs) would be allowed to participate directly in all overnight liquidity management operations. The margin requirements under the Liquidity Adjustment Facility (LAF) would be reviewed on a periodic basis; the margin requirement for reverse repo transactions, however, would continue to be 'Nil'.
- In order to improve communication on the Reserve Bank's liquidity management framework and procedures, the following measures are being introduced (a) 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; (b) 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 (c) periodic consultations will be conducted with market participants and other stakeholders.

2. Long Term Repo Operations (LTROs) for Improving Monetary Transmission

- Since June 2019, the Reserve Bank has ensured that comfortable liquidity is available in the system in order to facilitate the transmission of monetary policy actions and flow of credit to the economy.
- These efforts are being carried forward with a view to assuring banks about the availability of durable liquidity at reasonable cost relative to prevailing market conditions. This should encourage banks to undertake maturity transformation smoothly and seamlessly so as to augment credit flows to productive sectors.
- Accordingly, it has been decided that from the fortnight beginning on February 15, 2020, the Reserve Bank shall conduct term repos of one-year and three-year tenors of appropriate sizes for up to a total amount of INR 1,00,000 crore at the policy repo rate. Details about the LTRO facility are being issued separately.

3. Incentivizing 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.

4. External Benchmarking of New Floating Rate Loans by Banks to Medium Enterprises

- In pursuance of the recommendations of an Internal Study Group (Chairman: Dr. Janak Raj), all new floating rate personal or retail loans and floating rate loans to micro and small enterprises (MSEs) extended by banks were linked to external benchmarks, viz., (i) the policy repo rate; or (ii) any benchmark market interest rate produced by the Financial Benchmarks India Private Ltd. (FBIL), including Treasury bill rates effective October 1, 2019.
- Subsequent to the introduction of an external benchmark system, the monetary transmission has improved to the sectors where new floating rate loans have been linked to the external benchmark. With a view to further strengthening monetary transmission, it has been decided to link pricing of loans by scheduled commercial banks for the medium enterprises also to an external benchmark effective April 1, 2020. Detailed guidelines to this effect will be issued separately.

5. Extension of One-time Restructuring Scheme for MSME advances

- The Micro, Small and Medium Enterprises (MSMEs) sector plays an important role in the growth of the Indian economy, contributing over 28 per cent of the GDP , more than 40 per cent of exports , while creating employment for about 11 crore people.
- Considering the importance of MSMEs in the Indian economy and for creating an enabling environment for the sector in its efforts towards formalisation, a one-time restructuring of loans to MSMEs that were in default but 'standard' as on January 1, 2019, was permitted without an asset classification downgrade.
- The restructuring of the borrower account was to be implemented by March 31, 2020. The scheme has provided relief to a large number of MSMEs. As the process of formalisation of the MSME sector has a positive impact on financial stability and this process is still underway, it has been decided to extend the benefit of one-time restructuring without an asset classification downgrade to standard accounts of GST registered MSMEs that were in default as on January 1, 2020.
- The restructuring under the scheme has to be implemented latest by December 31, 2020. It is re-emphasised that this is a one-time regulatory dispensation. Detailed guidelines, in this regard, will be issued shortly.

6. Guidelines on Projects under Implementation in Commercial Real Estate sector

- It has been decided to permit extension of date of commencement of commercial operations (DCCO) of project loans for commercial real estate, delayed for reasons beyond the control of promoters, by another one year without downgrading the asset classification, in line with treatment accorded to other project loans for non-infrastructure sector.
- This would complement the initiatives taken by the Government of India in the real estate sector. The detailed instructions will be issued shortly.

7. Regional Rural Banks - Permission for Merchant Acquiring Business

- To give a fillip to digital banking and enabling regional rural banks (RRBs) to provide cost effective and user-friendly solutions to their customers, it has been decided to allow RRBs, like other commercial banks, to act as merchant acquiring banks, using Aadhaar Pay – BHIM app and POS terminals.

8. Proposed Changes in Regulations Applicable to Housing Finance Companies (HFCs) for Public Comments

- Post transfer of regulation of HFCs from National Housing Bank (NHB) to Reserve Bank with effect from August 09, 2019, a Press Release dated August 13, 2019 was issued stating that Reserve Bank will carry out a review of the extant regulatory framework applicable to HFCs and issue revised regulations in due course, and till such time HFCs shall continue to comply with the directions and instructions issued by NHB. It is proposed to place the draft revised regulations on the Bank's website by the end of this month, for public comments.

9. Deepening of Rupee Interest Rate Derivative Market

- Currently, market makers undertaking rupee interest rate derivative (IRD) transactions with non-residents by way of 'back-to-back' arrangements are required to recognise all rupee IRD transactions undertaken by their related entities globally, in their books in India.
- This arrangement is proposed to be extended to cover all market makers, whether or not they undertake back-to-back transactions. It is accordingly 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. The revised draft directions shall be issued by end-March 2020.

10. Margin Requirements for Non-Centrally Cleared Derivatives

- Well-established margining arrangements for financial contracts contribute to financial stability by enhancing credibility of the market mechanism and discouraging excessive risk-taking.
- To improve safety of settlement of over-the-counter (OTC) derivatives that are not centrally cleared, following the G-20 recommendations, the Reserve Bank had issued a discussion paper to implement global practices related to margin requirements for such derivatives.
- The introduction of legislation for netting of financial transactions proposed in the Union Budget 2020-21 would be a significant enabler for efficient margining. It has, therefore, been decided to issue the directions regarding exchange of variation margin (VM) for non-centrally cleared derivatives (NCCDs) by end-March 2020. Draft directions on exchange of initial margin (IM) for NCCDs will be issued by end-June 2020.

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11. Inter-operability of Depositories

In continuation of efforts to facilitate interoperability of Government securities depositories, as announced in the Union Budget 2019-20, the Reserve Bank will modify its Government securities registry (the PDO-NDS system) to include constituent details in the Constituent Subsidiary General Ledger (CSGL) accounts. This is expected to fuel interest of retail investors to invest in Government securities. The upgrade is expected to be made operational by end of July 2020.

12. Digital Payments Index

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.

13. Framework to Establish Self-Regulatory Organisation (SRO) for Digital Payment System

With substantial growth in digital payments and maturity gained by entities in the payment ecosystem, it is desirable to have a Self-Regulatory Organisation (SRO) for orderly operations of the entities in the 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.

14. 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.