

8th Aug 2020

The MPC left the policy repo rate unchanged at 4%, to maintain accommodative stance.

The reverse repo rate under the LAF remains unchanged at 3.35%, the marginal standing facility (MSF) rate and the Bank Rate at 4.25%.

RBI statement - These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

Additional Measures:

1. Additional special liquidity facility of ₹10,000 crore will be provided at the policy repo rate.
2. Resolution Framework for COVID-19-related Stress.
3. Restructuring of MSME debt.
4. Advances against Gold Ornaments and Jewellery.
5. Banks' Investment in Debt Mutual Funds and Debt Exchange Traded funds – Capital Charge for Market risk.
6. Review of Priority Sector Lending Guidelines.

RBI projects CPI inflation may remain elevated in Q2:2020-21, but may moderate in H2:2020-21

The baseline inflation outlook is likely to be influenced by several factors:

- A more favourable food inflation outlook may emerge as the bumper rabi harvest eases prices of cereals, especially if open market sales and public distribution offtake are expanded on the back of significantly higher procurement.
- The relatively moderate increases in minimum support prices (MSP) for the kharif crops and monsoon are also supportive of benign inflation prospects. Nonetheless, upside risks to food prices remain.
- The abatement of price pressure in key vegetables is delayed and remains contingent upon normalisation of supplies.
- Protein based food items could also emerge as a pressure point, given the tight demand-supply balance in the case of pulses. The inflation outlook of non-food categories is, however, fraught with uncertainty.
- Higher domestic taxes on petroleum products have resulted in elevated domestic fuel prices and will impart broad-based cost-push pressures going forward.
- Volatility in financial markets and rising asset prices also pose upside risks to the outlook.

Growth outlook:

- The recovery in the rural economy is expected to be robust, buoyed by the progress in kharif sowing.
- Manufacturing firms responding to the Reserve Bank's industrial outlook survey expect domestic demand to recover gradually from Q2 and to sustain through Q1:2021-22.
- On the other hand, consumer confidence turned more pessimistic in July relative to the preceding round of the Reserve Bank's survey.
- External demand is expected to remain anemic under the weight of the global recession and contraction in global trade. Taking into consideration the above factors, real GDP growth in Q2-Q4 is expected to evolve along the lines noted in the May resolution.

For the year 2020-21, as a whole, real GDP growth is expected to be negative. An early containment of the COVID-19 pandemic may impart an upside to the outlook. A more protracted spread of the pandemic, deviations from the forecast of a normal monsoon and global financial market volatility are the key downside risks.

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