

\*It's an off-cycle meeting of MPC in lieu of the scheduled meeting during 5<sup>th</sup> June, 2020.

22<sup>nd</sup> May 2020

## **The MPC\* reduced the policy repo rate by 40bps to 4%, maintained accommodative stance.**

Consequently, the reverse repo rate under the LAF stands reduced to 3.35%, and 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.

### **Developmental and regulatory policies announced by RBI:**

- Measures to improve the functioning of markets and market participants
- Measures to support exports and imports
- Efforts to further ease financial stress by providing relief on debt servicing and improving access to working capital
- Ease financial constraints faced by state governments.

### **Inflation outlook:**

- As supply lines get restored in the coming months with gradual relaxations in the lockdown, the unusual spike in food inflation in April is expected to moderate.
- The forecast of a normal monsoon also portends well for food inflation.
- Given the current global demand-supply balance, international crude oil prices are likely to remain low although they may firm up from the recent depressed levels.
- Soft global prices of metals and other industrial raw materials are likely to keep input costs low for domestic firms.
- Deficient demand may hold down pressures on core inflation (excluding food and fuel), although persisting supply dislocations impart uncertainty to the near-term outlook.
- Volatility in financial markets could have a bearing on inflation.

These factors, combined with favourable base effects, are expected to take effect and pull down headline inflation below target in Q3 and Q4 of 2020-21.

### **Growth outlook:**

- Economic activity other than agriculture is likely to remain depressed in Q1:2020-21 in view of the extended lockdown.
- Even though the lockdown may be lifted by end-May with some restrictions, economic activity even in Q2 may remain subdued due to social distancing measures and the temporary shortage of labour.
- Recovery in economic activity is expected to begin in Q3 and gain momentum in Q4 as supply lines are gradually restored to normalcy and demand gradually revives.
- For the year as a whole, there is still heightened uncertainty about the duration of the pandemic and how long social distancing measures are likely to remain in place and consequently, downside risks to domestic growth remain significant. On the other hand, upside impulses could be unleashed if the pandemic is contained, and social distancing measures are phased out faster.

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