*Governor's Statement**

Shaktikanta Das

The newly appointed Monetary Policy Committee (MPC) with Dr. Ashima Goyal, Professor Jayanth R. Varma and Dr. Shashanka Bhide as external members met on 7th, 8th and 9th October, 2020 in its first meeting and the 25th under the monetary policy framework that was instituted in June 2016. I welcome the new members and thank them for their valuable contributions to the setting and conduct of monetary policy in India. I take this opportunity to thank our teams in the Reserve Bank of India (RBI) for their analytical support and logistic assistance.

The MPC evaluated domestic and global macroeconomic and financial conditions and voted unanimously to leave the policy repo rate unchanged at 4 per cent. It also decided to continue with the accommodative stance of monetary policy as long as necessary – at least during the current financial year and into the next year – to revive growth on a durable basis and mitigate the impact of COVID-19, while ensuring that inflation remains within the target going forward. The Marginal Standing Facility (MSF) rate and the Bank rate remain unchanged at 4.25 per cent. The reverse repo rate stands unchanged at 3.35 per cent.

Let me take this opportunity to briefly review the state of the economy and its prospects. I have always dared to be an optimist, believing firmly in the ability of humankind to overcome the pandemic. In the months gone by, when COVID-19 raged in fury across the world, our hopefulness might have appeared impudent, like a flame flickering amidst a gathering storm. Today, there is a turn in the wind, which suggests that it is not imprudent to dream of a brighter tomorrow even in the bleakest of times. As Dr. A.P.J Abdul Kalam, our visionary former President said: "*You have to dream before your dreams can come true…A dream is not that which you see while sleeping, it is something that does not let you sleep.*"

Charting the Recovery

After the steep decline into which the global economy plunged in the second quarter of 2020, global economic activity appears to have rebounded sequentially in the third quarter, but unevenly among and within economies. Improvement in manufacturing, labour markets and retail sales powered strong recoveries in some countries; whereas in others, a rise in new infections prompted a slower pace of unlocking or re- imposition of restrictions which, in turn, stalled the upturn. Generally, investment has remained in retrenchment while consumption and exports have started to improve. Massive policy support across all countries has prevented a deeper downslide, providing a floor underneath employment, household incomes and businesses. Financial conditions continue to remain benign.

The Indian economy is entering into a decisive phase in the fight against the pandemic. Relative to pre-COVID levels, several high- frequency indicators are pointing to the easing of contractions in various sectors of the economy and the emergence of impulses of growth. Rather than enumerating them, I have, in the interest of time, set them out in an Annex to this statement. By all indications, the deep contractions of Q1:2020-21 are behind us; silver linings are visible in the flattening of the active caseload curve across the country. Barring the incidence of a second wave, India stands poised to shrug off the deathly grip of the virus and renew its tryst with its pre-COVID growth trajectory.

In this environment, the focus must now shift from containment to revival. Undeterred by the

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pandemic, the rural economy looks resilient. *Kharif* sowing has already surpassed last year's acreage as well as the normal sown area. Improved soil moisture conditions, along with healthy reservoir levels, have brightened the outlook for the *rabi* season. Early estimates suggest that food grains production is set to cross another record in 2020-21. Job creation under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) has provided incomes and employment in rural areas. Meanwhile, migrant labour is returning to work in urban areas, and factories and construction activity are coming back to life. This is also reflected in rising levels of energy consumption and population mobility. In cities, traffic intensity is rising rapidly; online commerce is booming; and people are getting back to offices. The mood of the nation has shifted from fear and despair to confidence and hope.

Some of this optimism is being reflected in people's expectations. In the September 2020 round of the RBI's survey, households expect inflation to decline modestly over the next three months, indicative of hope that supply chains are mending. Our projections indicate that inflation would ease closer to the target by Q4:2020-21. Our other surveys, also conducted in September, indicate that consumer confidence is turning upbeat on the general economic situation, employment and income over a one year ahead horizon. While the current assessment of the overall business situation remains in contraction in Q2, it has moved up from a low in Q1. Forward-looking business expectations are optimistic on the overall business situation, production, order books, employment, exports and capacity utilisation.

The manufacturing purchasing managers' index (PMI) for September 2020 rose to 56.8, its highest mark since January 2012, supported by acceleration in new orders and production. The services PMI for September at 49.8 remained in contraction but has risen from 41.8 in August. These expectations are also reflected in our growth projections which suggest that GDP growth may break out of contraction and turn positive by Q4.

There is currently an animated debate about the shape of the recovery. Will it be V, U, L, or W? More recently, there has also been talk of a K-shaped recovery. In my view, it is likely to predominantly be a three- speed recovery, with individual sectors showing varying paces, depending on sector-specific realities. Sectors that would 'open their accounts' the earliest are expected to be those that have shown resilience in the face of the pandemic and are also labour-intensive. Agriculture and allied activities; fast moving consumer goods; two wheelers, passenger vehicles and tractors; drugs and pharmaceuticals; and electricity generation, especially renewables, are some of the sectors in this category. In several of these areas, reforms such as in agricultural marketing and value chains encompassing cold storage, transport and processing; changes in labour laws; and creation of capacity for production and distribution of vaccines have already opened up new vistas for fresh investment to step in.

The second category of sectors to 'strike form' would comprise sectors where activity is normalising gradually. The third category of sectors would include the ones which face the 'slog overs', but they can rescue the innings. These are sectors that are most severely affected by social distancing and are contact-intensive.

The modest recovery in various high-frequency indicators in September 2020 could strengthen further in the second half of 2020-21 with progressive unlocking of economic activity. Agriculture and allied activities could well lead the revival by boosting rural demand. Manufacturing firms expect capacity utilisation to recover in Q3:2020-21 and activity to gain some traction from Q3 onwards. Both private investment and exports are likely to be subdued, especially as external demand is still anaemic. For the year 2020-21 as a whole, therefore, real GDP is expected to decline by 9.5 per cent, with risks tilted to the downside. If, however, the current momentum of upturn gains ground, a faster and stronger rebound is eminently feasible.

Financial Market Guidance

Over the last few weeks, there has been some disconnect between the rationale underlying the RBI's debt management and monetary operations on the one hand, and expectations in the market, on the other. I thought I should take this opportunity to address these issues squarely so that market participants and the RBI share a common set of expectations, which, in turn, should engender orderly market conditions.

As the monetary policy authority with the responsibilities for development and regulation of financial markets and the management of public debt, the RBI has prioritised the orderly functioning of markets and financial institutions, easing of financing conditions and the provision of adequate system-level as well as targeted liquidity. This is important from the point of view of smooth and seamless transmission of monetary policy impulses as well as the completion of market borrowing programmes of the centre and states in a non-disruptive manner with a normal evolution of the yield curve. Since February 2020, the RBI has taken a series of measures in this direction. The RBI stands ready to undertake further measures as necessary to assure market participants of access to liquidity and easy financing conditions.

Notwithstanding an augmented market borrowing programme for 2020-21, the issuances for the first half of the year have been seamlessly managed both for the centre and the states. The weighted average cost of borrowings by the central government during the first half of 2020-21 at 5.82 per cent is the lowest in the last 16 years. The weighted average maturity of the outstanding stock of the centre has also been the highest so far. The RBI has assured that the borrowing programme of the centre and states for rest of 2020-21 will be completed in a non-disruptive manner without compromising on price and financial stability. In pursuit of this objective, the limit for Ways and Means Advances (WMA) for the centre has been kept higher at ₹1.25 lakh crore compared to ₹35,000 crore in H2 of the previous year. Similarly, the 60 per cent increase in WMA limit for states in the first half of 2020-21 has been extended for a further period of 6 months till March 31, 2021.

Market participants should be assured that in keeping with the monetary policy stance announced today, the RBI will maintain comfortable liquidity conditions and will conduct market operations in the form of outright and special open market operations. In response to feedback from market participants, the size of these auctions will be increased to ₹20,000 crore. It is expected that the market participants will respond positively to this initiative.

Yields in the government securities (g-sec) market, both primary and secondary segments, also need to evolve in alignment with the comfortable liquidity conditions. This is important for those segments of the financial markets that rely on the g-sec yield curve as a benchmark for pricing financial instruments so as to benefit from the easy financing conditions engendered by the RBI's policy measures and operations.

Financial market stability and the orderly evolution of the yield curve are public goods and both market participants and the RBI have a shared responsibility in this regard. The augmented borrowing programme for 2020-21 has been necessitated due to the exigencies imposed by the pandemic in the form of the fiscal stimulus and the loss of tax revenue. While this has imposed pressures on the market in the form of expanded supply of paper, the RBI stands ready to conduct market operations as required through a variety of instruments to assuage these pressures, dispel any illiquidity in financial markets and maintain orderly market conditions. Market participants, on their part, need to take a broader time perspective and display bidding behaviour that reflects a sensitivity to the signals from the RBI in the conduct of monetary policy and debt management. We look forward to cooperative solutions for the borrowing programme for the second half of the year. It is said that it takes at least two views to make a market, but these views can be competitive without being combative.

In this context, it is appropriate that I set out our assessment of underlying inflation dynamics and the outlook. Abstracting from the period April-May, 2020 when imputations imposed a break in the CPI inflation series, headline inflation has moved up from March 2020 levels and has persisted above the tolerance band of the target. Our assessment is that it will remain elevated in the September print, but ease gradually towards the target over Q3 and Q4. Our analysis suggests that supply disruptions and associated margins/mark-ups are the major factors driving up inflation. As supply chains are restored, these wedges should dissipate. Meanwhile, aggregate demand remains subdued and there is evidence of considerable resource slack. Large excess supply conditions characterise food grains and horticulture production, and the outlook for agriculture is bright. Crude prices remain range-bound. The MPC has hence decided to look through the current inflation hump as transient and address the more urgent need to revive growth and mitigate the impact of COVID-19. This has provided the space for continuing with the accommodative stance with forward guidance as set out in the MPC's resolution.

Additional Measures

Against this backdrop and to provide impetus towards reviving the economy, certain additional measures are being announced today. These measures are intended to (i) enhance liquidity support for financial markets; (ii) regulatory support to improve the flow of credit to specific sectors within the ambit of the norms for credit discipline; (iii) provide a boost to exports; and (iv) deepen financial inclusion and facilitate ease of doing business by upgrading payment system services.

(i) Liquidity Measures

(a) On Tap TLTRO

The focus of liquidity measures by the RBI will now include revival of activity in specific sectors that have both backward and forward linkages, and multiplier effects on growth. Accordingly, it has been decided to conduct on tap TLTRO with tenors of up to three years for a total amount of up to ₹1,00,000 crore at a floating rate linked to the policy repo rate. The scheme will be available up to March 31, 2021 with flexibility with regard to enhancement of the amount and period after a review of the response to the scheme. Liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by entities in specific sectors over and above the outstanding level of their investments in such instruments as on September 30, 2020. The liquidity availed under the scheme can also be used to extend bank loans to these sectors. Moreover, banks that had availed of funds earlier under targeted long-term repo operations (TLTRO and TLTRO 2.0) will be given the option of reversing these transactions before maturity. In view of the borrowing requirements of the centre and states in the second half of 2020-21 and the likely pick-up in demand for credit as the recovery gathers strength, on tap TLTROs are intended to enable banks to conduct their operations smoothly and seamlessly without being hindered by illiquidity frictions. The objective is to ensure that liquidity in the system remains comfortable.

(b) SLR Holdings in Held to Maturity Category

On September 1, 2020 the RBI increased the investments permitted to be classified as Held to Maturity (HTM) from 19.5 per cent to 22 per cent of NDTL in respect of SLR securities acquired on or after September 1, 2020 up to March 31, 2021. In order to provide certainty to banks as regards their investments and to foster orderly market conditions while ensuring congenial financing costs, it has been decided to extend the dispensation of the enhanced HTM limit of 22 percent up to March 31, 2022 for securities acquired between September 1, 2020 and March 31, 2021. It is expected that banks will be able to plan their investments in SLR securities in an optimal manner.

(c) Open Market Operations (OMOs) in State Development Loans (SDLs)

In order to impart liquidity to SDLs and thereby facilitate efficient pricing, it has been decided to conduct open market operations (OMOs) in SDLs as a special case during the current financial year. This would improve secondary market activity and rationalize spreads of SDLs over central government securities of comparable maturities. This measure, along with the extension of HTM till March 2022, should ease concerns about illiquidity and absorptive capacity for the total government borrowing in the current year.

(ii) Export Support: Review of System-based Automatic Caution

Listing of Exporters

Exports have been adversely impacted by the pandemic-related contraction in external demand. In this environment, it is crucial to provide flexibility to exporters in the realisation of export proceeds and to empower them to negotiate better terms with overseas buyers. In order to facilitate the same, and make the caution-listing process exporter-friendly and equitable, it has been decided to discontinue the system-based automatic caution-listing. The RBI will henceforth undertake caution-listing on the basis of case-specific recommendations of the Authorised Dealer (AD) banks.

Regulatory Measures

At the current juncture, the financial sector has a crucial role in leading the nascent economic revival. It is in this context that the RBI is announcing certain measures aimed at catalysing augmented credit flows to the productive sectors of the economy.

(a) Revised Regulatory Limits for Retail Portfolio of Banks

Under the extant framework, the maximum aggregated retail exposure to one counterparty should not exceed the absolute threshold limit of ₹5 crore. In order to facilitate higher credit flow to this segment, which mainly consists of individuals and small businesses (*i.e.* with turnover of upto ₹50 crore), and in harmonization with the Basel guidelines, it has been decided to increase this threshold to ₹7.5 crore in respect of all fresh as well as incremental qualifying exposures. This measure is expected to expand credit flow to small businesses.

(b) Rationalisation of Risk Weights on Individual Housing Loans

Under the extant regulations, differential risk weights are applicable to individual housing loans, based on the size of the loan as well as the loan-to-value ratio (LTV). In recognition of the role of the real estate sector in generating employment and economic activity, it has been decided to rationalise the risk weights and link them to LTV ratios only for all new housing loans sanctioned up to March 31, 2022. This measure is expected to give a fillip to the real estate sector.

(iv) Financial Inclusion

Review of the Co-origination Model

In 2018, the RBI put in place a framework for co-origination of loans by banks and a category of Non Banking Financial Companies (NBFCs) for lending to the priority sector, subject to certain conditions. Based on the feedback received from stakeholders, it has been decided to extend the scheme to all NBFCs, including HFCs, in respect of all eligible priority sector loans, and allow greater operational flexibility to the lending institutions. This "Co-Lending Model" is expected to leverage the comparative advantages of banks and NBFCs in a collaborative effort, and improve the flow of credit to the unserved and underserved sectors of the economy.

(v) Payment and Settlement Systems

(a) Round-the-Clock Availability of Real Time Gross Settlement (RTGS) System

In December 2019, the RBI made available the National Electronic Funds Transfer (NEFT) system on a 24x7x365 basis and the system has been operating smoothly since then. In order to facilitate swift and seamless payments in real time for domestic businesses and institutions, it has been decided to make available the RTGS system round the clock on all days from December 2020. India will be among very few countries globally with a 24x7x365 large value real time payment system. This will facilitate innovations in the large value payments ecosystem and promote ease of doing business.

(b) Perpetual Validity for Certificate of Authorisation (CoA) issued to Payment System Operators (PSOs)

Under the Payment and Settlement Systems Act, 2007 the RBI currently gives on tap authorisation to payment system operators (PSOs) for limited periods of up to five years. In order to obviate licensing and business uncertainty for PSOs, it has been decided to grant authorisation for all PSOs (new applicants as well as existing PSOs) on a perpetual basis, subject to certain conditions. This will reduce compliance costs and create a climate conducive for investment activities, increased employment, and infusion of new talent and technologies into value chains.

Conclusion

COVID-19 has tested and severely stretched our resources and our endurance. Our travails are not over yet and a renewed rise in infections remains a serious risk. We have, however, come far on an un-travelled road, with self-belief and the courage of hope. We will reach deep into our fortitude and inner strength to overcome whatever formidable challenges COVID-19 may unleash going forward. If we have the resolve to be steadfast till we emerge victorious, I am confident we will muster the forces needed to subdue the pandemic. In the words of Mahatma Gandhi, and I quote"...if I have the belief that I can do it, I shall surely acquire the capacity to do it..."[1]. Against all odds, we shall strive and revive. Thank you. Stay safe and stay well. Namaskar.

[1] The Collected Works of Mahatma Gandhi (Electronic Book), New Delhi, Publications Division, Government of India, 1999, Volume 79.

Annex: High Frequency Indicators - as on October 8, 2020 *(Contd.)*									
February 2020 = 100 unless specified otherwise									
Sr. No.	**Indicators**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
1	**Agriculture / Rural demand**								
	Domestic Sales of tractors*	100	41	15	76	89	101	137	
	Two wheelers Sales*	100	69	0	20	72	94	104	
	Three wheelers Sales*	100	64	0	7	29	33	30	
	Agriculture Export*	100	78	63	88	95	109	100	
	Fertiliser Sales*	100	80	135	105	93	107	96	
	Agriculture Credit (Outstanding)	100	100	100	99	100	101	101	
	MGNREGA work demand (households)	100	93	60	168	201	144	109	109
2	**Industrial Production**								
	Index of Industrial Production*	100	79	42	65	82	88		
	IIP: Manufacturing*	100	77	33	61	82	88		
	IIP: Capital Goods*	100	68	9	40	69	83		
	IIP: Infrastructure & Construction Goods*	100	75	15	60	78	87		
	IIP: Consumer Durables Goods*	100	66	5	33	67	80		
	IIP: Consumer Non-Durables Goods*	100	78	53	91	114	109		
	Eight Core Industries (ECI) Index*	100	88	60	76	83	88	85	
	ECI: Steel*	100	78	18	63	75	92	90	
	ECI: Cement*	100	73	14	71	83	81	74	
	Electricity Demand*	100	95	82	99	101	108	105	108
	Production of Automobiles								
	Passenger Vehicles*	100	67	0	11	43	72	84	
	Two wheelers*	100	77	0	17	59	87	105	
	Three wheelers*	100	69	0	37	43	39	58	
	Production of tractors*	100	52	0	37	104	92	98	
3	**Construction**								
	Steel Consumption*	100	82	20	58	79	105	94	101
	Cement production*	100	73	16	71	82	80	74	
4	**Transport**								
	Automobiles sales*	100	65	0	19	67	88	98	
	Passenger vehicles sales*	100	53	0	14	47	74	86	
	Domestic air passenger traffic*	100	66	0	3	18	18	29	
	Domestic air cargo*	100	66	7	17	49	58	63	
	International air cargo*	100	70	24	42	61	71	72	
	Freight traffic net tonne kilometre*	100	81	60	70	84	87	91	102
	Port Cargo*	100	92	78	73	84	86	88	94
	Toll Collection: Volume	100	77	9	50	74	79	88	100
	Petroleum consumption*	100	81	50	77	86	86	79	
5	**Domestic trade**								
	GST E-way bill	100	71	15	45	76	85	86	100
	GST revenue	100	93	31	59	86	83	82	91

Annex: High Frequency Indicators - as on October 8, 2020 *(Concld.)*									
Sr. No.	**Indicators**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
6	**Tourism and hospitality**								
	Foreign tourist arrivals	100	32	0	0	0	0	0	
7	**External Trade**								
	Merchandise Exports	100	77	37	69	79	85	82	
	Merchandise Imports	100	83	46	59	56	76	79	
	Non-Oil Non-Gold Imports	100	82	50	75	63	81	78	
	Services Exports	100	102	93	95	96	96		
	Services Imports	100	100	84	90	90	91		
8	**Apple Mobility Index**	100	60	15	28	46	51	65	79
9	**Payment and Settlements Indicators (Volume)**								
	RTGS	100	89	41	68	90	94	88	
10	**Monetary, Banking and financial aggregates**								
	Credit outstanding	100	103	102	101	102	102	101	102
	Bank Deposits	100	102	103	105	104	106	106	107
	Life insurance first year premium	100	137	36	74	156	124	146	137
	Non-life insurance premium	100	113	0	0	100	122	126	
	M3	100	102	103	105	105	107	107	108
	Reserve Money	100	102	102	105	107	107	107	108
	CP: Monthly Outstanding	100	86	104	106	98	94	93	105
	CD: Monthly Outstanding	100	93	97	86	65	56	49	
	FPI Net (US$ million)	1271	-15924	-1961	-973	3441	451	6662	-157
	MF Investment - Equity (INR crore)	9863	30131	-7966	6523	-502	-9195	-8400	-3982
	MF Investment - Debt (INR crore)	18026	-16190	-9795	10699	41365	31898	24494	16009
	Corporate Bond Issuance (INR crores)	80555	75734	54741	84871	70536	48122	58419	
	Corporate Bond Spread: AAA (3-year) (Basis Points)	90	159	239	173	103	50	54	43
11	**PMI**								
	PMI: Manufacturing (>50 indicates growth over previous month)	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8
	PMI: Services (>50 indicates growth over previous month)	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8
	PMI: Composite (>50 indicates growth since previous month)	57.6	50.6	7.2	14.8	37.8	37.2	46.0	54.6
12	**Employment**								
	CMIE Unemployment rate (%)	7.8	8.8	23.5	21.7	10.2	7.4	8.4	6.7

* indicates seasonally adjusted data.
Sources: CMIE, CEIC, NSO, MOSPI, RBI, SEBI, FIMMDA

← Below pre-Covid level	Normalisation / recovery of activity →