प्रेस प्रकाशनी **PRESS RELEASE**

भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

Department of Communication, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 022-22660502

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

April 13, 2020

Minutes of the Monetary Policy Committee Meeting March 24, 26 and 27, 2020
[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty second meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held during March 24, 26 and 27, 2020 at the Reserve Bank of India, Mumbai; the meeting was originally scheduled for March 31, April 1 and 3, 2020, but was advanced in view of the COVID-19 pandemic.

2. The meeting was attended by all the members – Dr. Chetan Ghate, Professor, Indian Statistical Institute; Dr. Pami Dua, former Director, Delhi School of Economics; Dr. Ravindra H. Dholakia, former Professor, Indian Institute of Management, Ahmedabad; Dr. Janak Raj, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Chetan Ghate, Dr. Pami Dua and Dr. Ravindra H. Dholakia joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

(a) the resolution adopted at the meeting of the Monetary Policy Committee;
(b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and
(c) the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (March 27, 2020) decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 75 basis points to 4.40 per cent from 5.15 per cent with immediate effect;
- accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.65 per cent from 5.40 per cent;
- further, consequent upon the widening of the LAF corridor as detailed in the accompanying Statement on Developmental and Regulatory Polices, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of coronavirus (COVID-19) on the economy, while ensuring that inflation remains within the target.

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 main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

6. Global economic activity has come to a near standstill as COVID-19 related lockdowns and social distancing are imposed across a widening swathe of affected countries. Expectations of a shallow recovery in 2020 from 2019's decade low in global growth have been dashed. The outlook is now heavily contingent upon the intensity, spread and duration of the pandemic. There is a rising probability that large parts of the global economy will slip into recession.

7. Financial markets have become highly volatile from January onwards due to the outbreak of COVID-19. Panic sell-offs have resulted in wealth destruction in equity markets across advanced and emerging economies alike. In the former, flight to safety has pulled down government bond yields to record lows with some hardening in recent days. In the latter, the rush to exit has rendered fixed income markets illiquid and resulted in firming up of yields. Emerging and advanced economy currencies are experiencing severe depreciation pressure on a daily basis because of fire sales due to extreme risk aversion. At this point, only the US dollar remains safe haven in a highly uncertain outlook. Japanese yen and gold – the other two safe havens till the early part of March – have given way to a flight to cash. International crude prices initially traded with a softening bias from January in anticipation of demand weakening due to the COVID-19 outbreak. Production cut disagreements among key oil producers, however, set off retaliatory supply scale-ups and a price war that plunged international Brent crude prices

to a low of US$ 25 per barrel on March 18, 2020. These developments are likely to dampen inflation across advanced and emerging economies. Central banks and governments are in war mode, responding to the situation with several conventional and unconventional measures targeted at easing financial conditions to avoid a demand collapse and to prevent financial markets from freezing up due to illiquidity.

Domestic Economy

8. The second advance estimates of the National Statistics Office released in February 2020 implied real GDP growth of 4.7 per cent for Q4:2019-20 within the annual estimate of 5 per cent for the year as a whole. This is now at risk from the pandemic's impact on the economy. High frequency indicators suggest that private final consumption expenditure has been hit hardest, even as gross fixed capital formation has been in contraction since Q2:2019-20. On the supply side, the outlook for agriculture and allied activities appears to be the only silver lining, with foodgrains output at 292 million tonnes being 2.4 per cent higher than a year ago. A pick-up in manufacturing and electricity generation pulled industrial production into positive territory in January 2020 after intermittent contraction and/or lacklustre activity over the past five months; however, more data will need to be watched to assess whether the recent uptick will endure in the face of COVID-19. Meanwhile, most service sector indicators for January and February 2020 moderated or declined. Since then anecdotal evidence suggests that several services such as trade, tourism, airlines, the hospitality sector and construction have been further adversely impacted by the pandemic. Dislocations in casual and contract labour would result in losses of activity in other sectors as well.

9. Retail inflation, measured by the consumer price index, peaked in January 2020 and fell by a full percentage point in February 2020 to 6.6 per cent, as the ebbing of onion prices brought down food inflation from double digits in the preceding two months. Price pressures, however, remain firm across protein-rich items, edible oils and pulses; but the shock to demand from COVID-19 may weaken them going forward. While fuel inflation increased sharply in February on the back of the delayed domestic adjustment to international LPG prices, the plunge in international crude prices in March may bring a measure of relief to the extent it is allowed to pass-through. CPI inflation excluding food and fuel eased in February under the weight of softer prices of transport and communication, and personal care. Households' inflation expectations a year ahead softened by 20 bps in the March 2020 round of the Reserve Bank's survey.

10. Domestic financial conditions have tightened considerably, with equity markets facing massive sell-offs by foreign portfolio investors (FPIs). In the bond market too, yields have risen on sustained FPI selling, while redemption pressures, drop in trading activity and generalised risk aversion have pushed up yields to elevated levels in commercial paper, corporate bond and other fixed income segments. In the forex market, the Indian rupee (INR) has been under continuous downward pressure. Under these conditions, the Reserve Bank has endeavoured to keep financial markets liquid, stable and functioning normally. Systemic liquidity surplus, as reflected in net absorptions under the LAF, averaged ₹2.86 lakh crore in March (up to March 25, 2020). In addition, the Reserve Bank undertook unconventional operations in the form of auctions of what is called 'operation twist' involving the simultaneous sale of short-term government securities (of ₹28,276 crore) and purchase of long-term securities (of ₹40,000 crore), cumulatively injecting a

net amount of ₹11,724 crore. The Reserve Bank also conducted five long term repo auctions of 1 year and 3 years tenors of a cumulative amount of ₹1.25 lakh crore so far to inject liquidity and improve monetary transmission. It also conducted two sell-buy swap auctions to inject cumulatively US dollar liquidity into the forex market to the tune of US$ 2.71 billion on March 16 and 23. Open market purchase operations of ₹10,000 crore on March 20 and ₹15,000 crore each on March 24 and March 26 have been conducted to bolster liquidity and smoothen financial conditions.

11. In the external sector, merchandise exports expanded in February 2020 after posting six consecutive months of contraction. Import growth also moved into positive territory after eight months of continuous decline. Consequently, the trade deficit widened marginally on a year-on-year basis although it was lower than its level a month ago. On March 12, the Reserve Bank released balance of payments data which showed the current account having moved to near balance in Q3:2019-20 with a deficit of only 0.2 per cent of GDP. On the financing side, net FDI inflows at US$ 37.8 billion during April-January 2019-20 were substantially higher than a year ago. Portfolio investment recorded net outflows of US$ 5.2 billion during 2019-20 (up to March 25), down from US$ 6.6 billion a year ago. India's foreign exchange reserves reached a level of US$ 487.2 billion on March 6, 2020 – an increase of US$ 74.4 billion over their end-March 2019 level.

Outlook

12. In the sixth bi-monthly resolution of February 2020, CPI headline inflation was projected at 6.5 per cent for Q4:2019-20. The prints for January and February 2020 indicate that actual outcomes for the quarter are running 30 bps above projections, reflecting the onion price shock. Looking ahead, food prices may soften even further under the beneficial effects of the record foodgrains and horticulture production, at least till the onset of the usual summer uptick. Furthermore, the collapse in crude prices should work towards easing both fuel and core inflation pressures, depending on the level of the pass-through to retail prices. As a consequence of COVID-19, aggregate demand may weaken and ease core inflation further. Heightened volatility in financial markets could also have a bearing on inflation.

13. Turning to growth, apart from the continuing resilience of agriculture and allied activities, most other sectors of the economy will be adversely impacted by the pandemic, depending upon its intensity, spread and duration. If COVID-19 is prolonged and supply chain disruptions get accentuated, the global slowdown could deepen, with adverse implications for India. The slump in international crude prices could, however, provide some relief in the form of terms of trade gains. Downside risks to growth arise from the spread of COVID-19 and prolonged lockdowns. Upside growth impulses are expected to emanate from monetary, fiscal and other policy measures and the early containment of COVID-19.

14. The MPC is of the view that macroeconomic risks, both on the demand and supply sides, brought on by the pandemic could be severe. The need of the hour is to do whatever is necessary to shield the domestic economy from the pandemic. Central banks across the world have responded with monetary and regulatory measures – both conventional and unconventional. Governments across the world have unleashed massive fiscal measures, including targeted health services support, to protect economic activity from the impact of the virus. To mitigate the economic difficulties arising out of the

virus outbreak, the Government of India has announced a comprehensive package of ₹1.70 lakh crore, covering cash transfers and food security, for vulnerable sections of society, including farmers, migrant workers, urban and rural poor, differently abled persons and women. The MPC notes that the Reserve Bank has taken several measures to inject substantial liquidity in the system. Nonetheless, the priority is to undertake strong and purposeful action in order to minimise the adverse macroeconomic impact of the pandemic. It is in this context that the MPC unanimously votes for a sizable reduction in the policy repo rate, but with some differences in the quantum of reduction. Furthermore, the MPC also notes that the Reserve Bank has decided to undertake several measures to further improve liquidity, monetary transmission and credit flows to the economy and provide relief on debt servicing. It also underscores the need for all stakeholders to fight against the pandemic. Banks and other financial institutions should do all they can to keep credit flowing to economic agents facing financial stress on account of the isolation that the virus has imposed. Market participants should work with regulators like the Reserve Bank and the Securities and Exchange Board of India (SEBI) to ensure the orderly functioning of markets in their role of price discovery and financial intermediation. Strong fiscal measures are critical to deal with the situation.

15. All members voted for a reduction in the policy repo rate and maintaining the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

16. Dr. Ravindra H. Dholakia, Dr. Janak Raj, Dr. Michael Debabrata Patra and Shri Shaktikanta Das voted for a 75 bps reduction in the policy repo rate. Dr. Chetan Ghate and Dr. Pami Dua voted for a 50 bps reduction in the policy repo rate.

17. The minutes of the MPC's meeting will be published by April 13, 2020.

Voting on the Resolution to reduce the policy repo rate

Member	Vote	Magnitude of policy repo rate reduction (basis points)
Dr. Chetan Ghate	Yes	50
Dr. Pami Dua	Yes	50
Dr. Ravindra H. Dholakia	Yes	75
Dr. Janak Raj	Yes	75
Dr. Michael Debabrata Patra	Yes	75
Shri Shaktikanta Das	Yes	75

Statement by Dr. Chetan Ghate

18. In the last review, I had said "While I don't see space for further cuts going forward, I remain data dependent"

19. In the last six weeks, the data has turned in a significant way.

20. Because of COVID-19, acute downside risks to growth have mounted. As lockdown measures kick-in, the economic cost of COVID-19 could become large as production declines in various sectors, and there is a permanent postponement of consumption expenditure plans.

21. A large decline in global growth will also affect our exports adversely. Growth in the service sector, the largest sector in the economy, will also be affected because discretionary spending will fall. It is important to understand that consumer services – retail, hotels, restaurants etc. – are a *corollary* of growth. In contrast, producer services – finance, IT, Real Estate, Transportation etc. - are *producers* of growth and also employment. COVID-19 will impact both, slowing the momentum on the growth turnaround that had set in in the last few months.

22. Unfortunately, there is no short-cut at the current juncture apart from the lockdown.

23. What should the monetary policy strategy be in this situation? There are three considerations.

24. First, monetary policy should *minimize* the fall in aggregate demand, i.e., we should minimize the extent of permanent damage done to growth by the COVID-19 shock. Hence, the required cut in the policy rate should be large given the severity of the shock. What is required is in the nature of an insurance cut.

25. In a demand deficient economy, a large rate cut, however, will be akin to pushing on a string. I have been raising this concern in several previous policy reviews justifying the need for more structural reforms. This concern prevents me from voting for an even larger cut in the policy rate this time.

26. Second, what is the appropriate division of labor between monetary policy, liquidity policy, social insurance policy, and fiscal policy in stimulating aggregate demand?

27. I see the current fiscal stimulus (1.7 lakh crore which is about 0.8% of GDP, announced on March 26, 2020) more in the nature or a relief measure (social insurance) rather than a stimulus. A relief is not a permanent fix. The idea of the measure announced by the government is to weather the storm so that no one has to go without food and spending on essential items. The effect of this measure will be to lead to a small rise in consumption in the short run, but the effect will dissipate quickly.

28. On liquidity policy, a large number of measures will be announced today which include prudential and forbearance measures. A series of liquidity measures have already been enacted (Forex swaps, LTROs, operation twist, OMOs). Combined, these measures amount to a "carpet-bombing" of the financial system with liquidity and will help flatten yields in those parts of the financial system where fire-sales have pushed up credit spreads. The stabilization of financial markets will help improve economic outcomes.

29. On fiscal policy, I await details on a second stimulus package that will possibly be announced by the government. The challenge will be this: estimates of the size of the government spending multiplier internationally across a wide variety of studies, unless the economy has a lot of slack or is stuck at the zero lower bound, tend to be small, and typically smaller than one (an increase in Government spending by 100 Rs. increases GDP by less than 100 Rs.). Tax multipliers, on the other hand, tend to be larger (greater than one). This suggests that the ideal fiscal stimulus to deal with COVID-19 should be loaded on the tax side rather than the government spending side. India however has limited tax penetration. This is going to be the main design challenge.

30. Finally, what is the threat to our medium term inflation aim because of the COVID-19 shock?

31. While it is hard to assess -- in a precise manner -- the one year ahead level of inflation given the current situation, new disinflationary forces have emerged since the

last review, namely, an outsized reduction in crude because of geo-political factors, and a possible acute slowdown in growth in FY: 20-21. Inflation ex-food and fuel could also fall with lower crude prices and with an opening up of the output gap.

32. I worry though that even though vegetable inflation has fallen sharply from 50% in January 2020, it is still elevated at about 30% in February. Unseasonal rains, if any, and COVID-19 related lasting supply side disruptions in the food sector also pose an upside risk to the inflation trajectory in 2020-21. These need to be carefully watched.

33. Taking monetary policy, fiscal policy, social insurance policy, and liquidity policy together, a 50 bps cut in the policy rate is appropriate at the current juncture.

34. As noted recently by former Fed Chairman Ben Bernanke in an *AER* article, monetary policy has never proved able to reverse large shocks. It only helps to mitigate the worse effects of shocks, and speeds up the recovery.

35. Once the COVID-19 pandemic subsides, is there likely to be a quick return to normal? I am hopeful because production capacity has not been destroyed. However, I will watch the incoming growth-inflation data carefully, and remain data dependent.

36. I also vote to retain the stance as accommodative.

Statement by Dr. Pami Dua

37. The near nationwide lockdown due to the COVID-19 outbreak has brought economic activity to almost a standstill. The global economy has also been adversely impacted by the unprecedented economic and humanitarian crisis, the severity of which will depend on the depth, duration and diffusion of the evolving pandemic.

38. Depending on the severity of the situation and the duration of the lockdown, the crisis has ramifications for domestic growth stemming from supply side disruptions, contraction in demand, slowdown in global growth and a loss in consumer confidence as well as investor sentiment. The supply chain of key industries is likely to be disrupted due to restricted access to imported raw materials. The manufacturing sector is expected to drastically slow down due to closure of factories while consumer demand and investment spending are also likely to drop sharply. The services sector is expected to be impacted the most due to restrictions on travel, transport, hospitality, tourism, and professional and financial services. Construction activity is also expected to drop. Trade is expected to take a hit due to a fall in domestic demand and contraction in global growth. Since the shock to output is global, it is unlikely that any country can act as an engine of growth to pull the world out of this situation.

39. According to the second advance estimates of the NSO released in February 2020, GDP growth print for Q3: 2019-20 was 4.7% and is expected to be 5% for the full FY 2019-20. However, this may be difficult to achieve due to the negative impact of the coronavirus disease, which gained momentum in February in the country.

40. The slowdown in economic activity poses challenges for financial stability, especially in the wake of recent development in one private sector bank. Financial conditions have also become tight, with massive sell-offs by foreign portfolio investors in the debt and equity markets. For the same reason, the Indian rupee has also come under downward pressure. However, the Reserve Bank has done well to take various steps to inject large liquidity into the system and ensure stability in the financial markets.

41. On the inflation front, the trajectory of headline CPI inflation is heading downwards, with easing of food prices in the light of record foodgrains and horticulture production. The collapse in crude oil prices and weakening aggregate demand are expected to soften inflation further.

42. Thus, depending on the depth, duration and diffusion of the crisis, the risks to economic growth on both the supply and demand sides could be significant. Fortunately, in the current scenario, inflation is expected to remain soft and does not pose as a major challenge. The top-most priority, therefore, is to minimise the negative impact of the pandemic on economic growth. This necessitates a multi-pronged approach comprising monetary, fiscal and other policy measures, as well as steps to contain the spread of COVID-19.

43. The Reserve Bank has already taken several measures to inject substantial liquidity into the system. It is also widening the existing policy rate LAF corridor to incentivize banks to use funds for lending, instead of parking them with RBI. The Reserve Bank has also decided to undertake several measures to further improve liquidity, monetary transmission and credit flows to the economy, and provide relief on debt servicing. The Government of India has also announced a comprehensive fiscal package covering cash transfers and food security for vulnerable sections of society. Fiscal policy has a major role to play in combating the economic effects of the pandemic.

44. Given the extraordinary crisis, in order to revive growth and mitigate the economic impact of COVID-19, a sizable reduction in the policy repo rate is clearly warranted. Accordingly, I vote for cutting the policy rate by 50 basis points. In the current scenario, with heightened uncertainty and a near-standstill in economic activity, this may not necessarily lead to an increase in borrowing, but should raise consumer confidence and investor sentiment, going forward. It may be better to conserve some policy space for later, when those binding constraints are removed and the economy will require a further boost to recover from the pandemic. I also vote to maintain the accommodative stance as long as necessary to revive growth.

Statement by Dr. Ravindra H. Dholakia

45. These are truly exceptional times. Health hazards created by the spread of COVID-19 all over the globe are pushing the world economy into unprecedented recession. At the time of the previous meeting of MPC in early February 2020, the Indian economy was on the path of recovery from the growth slow down. Nobody expected that COVID-19 would hit India and so many other countries so soon and potentially so devastatingly that most of the production and economic activities would come to a grinding halt. Prolonged lock-down has seriously adverse economic and social implications. These external shocks are from both the supply and demand sides. Both producers and consumers, and hence investors and savers, are losing confidence and even hope. Under such unprecedented circumstances, governments in all countries have come up with policy measures on both fiscal and monetary fronts to provide a substantial booster dose, putting aside all other concerns like inflation and fiscal discipline. In any case, going forward, CPI inflation in India four quarters ahead is most likely to be well below the targeted 4 per cent. Therefore, remaining within the mandate given by the Act, this is the right time for MPC to act decisively and for RBI to provide a major booster dose to the economy basically to restore confidence of producers, consumers, investors and savers. In my opinion, there is enough space for a major rate cut and other liquidity and regulatory

measures. I, therefore, vote for a 75 bps cut to begin with in the policy repo rate and maintaining the accommodative stance. More precise reasons for my vote are as follows –

i) The second advance estimate of GDP growth during 2019-20 by NSO published on 28th February 2020 has to be adjusted downwards because of the sudden adverse impact of COVID-19 from March 2020. In my opinion, the Q4:2019-20 growth would be around 3.5% instead of 4.7% and hence the GDP growth for the year 2019-20 is likely to be around 4.7% instead of 5% as predicted by the NSO. Although there are significant uncertainties about the impact of the Coronavirus, based on various scenarios, it is possible to have a conservative prediction range of GDP growth for the next year (2020-21). Accordingly I believe that GDP growth in the whole year 2020-21 would be less, but not substantially less, than the one observed during the current year and may be in the range of 4% to 4.5%. The output gap would, therefore, continue to expand and exert downward pressure on the inflation ex-food and fuel.

ii) Looking to the international economic prospects in view of the devastating impact of COVID-19 and the response of the oil producers, the fuel prices are likely to remain depressed in the range of $25-40. Even when we consider that the entire fall may not get transmitted to the domestic market, the inflation in petroleum product prices may show a sharp declining trend over the next four quarters.

iii) Rabi crop has been a bumper crop and assuming a normal monsoon next year, food prices are expected to show a sharp declining trend over the next four quarters.

iv) Thus, headline CPI inflation by Q4:2020-21 is expected to be only around 2.5%. This makes the current real policy repo rate unduly high when the most of the comparator countries have cut their real policy rates to the zero or negative territory. It is time to correct our real policy rates substantially.

v) Concerns about transmission of policy rate cuts are already addressed by the policy of external bench-marking of the lending rates by banks in respect of MSME, retail and housing loans.

vi) The Central Government has already started providing fiscal boost and may continue doing so to revive the economy.

46. In my opinion, MPC and RBI must complement the efforts by providing a major boost. Fortunately, both have enough space on policy rates and liquidity and regulatory forbearance aspects for such exceptional times unlike several Central Banks of the West. This is the time for RBI to: reduce the Reverse Repo Rate further by widening the corridor thereby discouraging banks to park their excess liquidity with RBI and encouraging them to get into the corporate bond market; stop the clock for 3-4 months for recognition of defaults and downgrades to reduce panic and provide support; reduce SLR substantially to overcome liquidity crunch for credit expansion and such other measures. In order to provide a major boost through MPC, I vote to cut the policy Repo Rate by 75 bps this time. There is still enough space for the policy rate cut as and when required to support growth recovery going forward since inflation is likely to be under control.

Statement by Dr. Janak Raj

47. In recent weeks, there has been a drastic change in the global and domestic macroeconomic scenarios. Coronavirus (COVID-19) has crippled global supply chains and disrupted economic activity in many countries. The outbreak of coronavirus initially began as a supply shock, but it soon also became a demand shock with restrictions on travel, tourism, and cut back in non-essential spending due to lockdowns. Reflecting the severe impact that the COVID-19 is expected to have on the global economy, financial markets have been witnessing turbulence.

48. The authorities in many countries, including central banks, have unleashed conventional and unconventional measures to mitigate the adverse macroeconomic impact of the pandemic. Despite massive easing by central banks, however, global financing conditions have tightened due to a flight to safety. That there has been so much flight for safety and demand for liquidity that there has been large selling even in gold, pulling down its prices, which normally rise in an uncertain environment.

49. Since the pandemic is still spreading and its impact deepening, the estimates for downward drag on global growth are continuously being revised. However, it is now clear that global growth in 2020 is likely to be much weaker than that in 2019. As the COVID-19 pandemic has impacted advanced and emerging economies alike due to lockdowns and impaired supply chains, there is, in fact, a serious risk that the global economy will even slip into recession in 2020. In the face of slowing down of global growth, huge global debt accumulated after the global financial crisis may also pose serious threats to global financial stability.

50. Moving on to the domestic economy, economic activity appeared to have picked up some pace as reflected in several indicators in January/February such as growth in IIP, including manufacturing; railways freight traffic; tractor sales; and credit to micro and small industries. Both exports and imports also turned positive in February. PMI manufacturing in January and PMI composite in February were at eight-year high. However, these past data have become less relevant as the near-term outlook has turned highly uncertain caused by COVID-19, the spread, strength and length of which are unknown at this stage.

51. Various segments of the financial market have become extremely volatile and trading volumes have declined, pushing yields across the spectrum of yield curve. The domestic equity market has plummeted in the face of massive sell-offs by foreign portfolio investors. On the whole, domestic financial conditions have tightened and could seriously undermine monetary transmission, which otherwise improved in the more recent period.

52. While initially it was the civil aviation, hospitality and entertainment sectors which were hit by COVID-19, now with a 21-day nation-wide lockdown, most sectors will take a hit in Q4: 2019-20 and Q1:2020-21. The number of infected cases is relatively still low in India. And with the nation-wide lockdown if the spread is contained, life could slowly start returning to normalcy and the economy could also start recovering gradually. However, growth for the year as a whole is likely to be weak for three reasons. First, discretionary spending by households is likely to be curtailed in general even though there could be some pent-up demand in some sectors. Second, external demand will remain weak, impacting our exports. Third, weak domestic and external demand is likely to cause a

delay in revival of investment activity. However, the increased government spending may cushion the slowdown.

53. Inflation declined by 100 bps in February, pulled down by vegetables, especially onion. However, with a lockdown, there may be some near-term pressure on prices in many food items. Beyond near-term, food inflation is expected to moderate on arrival of the bumper *rabi* harvest. Fuel group inflation is likely to decline significantly with a large fall in global LPG prices. CPI inflation ex food and fuel is expected to remain soft on account of two factors: (i) a slowdown in demand; and (ii) a sharp decline in international crude oil prices, which will not only have a direct impact on petroleum product prices, but also on input prices in many industries. However, the decline in domestic pump and LPG prices will occur only to the extent the pass-through takes place. On the whole, the inflation outlook appears to have become benign. Collection of comprehensive CPI data during the period of lockdown would be challenging, which may, therefore, hamper a clearer assessment of the price situation for immediate months.

54. On the whole, it has been hard to clearly assess the macroeconomic outlook at this point of time. The COVID-19 pandemic has led to a series of *a priori* indistinguishable shocks – a sharp slowdown in global demand, volatility in financial markets, a sharp fall in crude oil prices, and virtual freeze of global trade and travel. All these factors have generated unforeseen volatility in several macroeconomic and financial variables – identification of which for modelling purposes is practically impossible. Furthermore, assigning probabilities on outcomes in times of infrequent but high-impact events such as the COVID-19 pandemic for projection purposes is extremely daunting.

55. To sum up, there is an unprecedented uncertainty about the exact impact COVID-19 will have on the near-term growth outlook. Though difficult to quantify, it is clear that aggregate demand will weaken significantly in the near future, which will impact the growth prospects for the year as a whole. Therefore, the main challenge for monetary policy at this juncture is to ensure that the adverse impact of COVID-19 on domestic demand is not amplified. It is also necessary to make sure that financial markets, which have been under stress with yields hardening across the maturity spectrum, do not intensify macroeconomic risks by impairing monetary transmission and giving rise to financial stability risks. Beyond the immediate future and once the situation starts normalising, domestic demand would need to be stimulated without any loss of time. The inflation outlook has improved significantly. Keeping in view these considerations, the need of the hour is to effect a sizeable reduction in the policy rate. I, therefore, vote for reducing the policy repo rate by 75 basis points. The reduction in the policy rate together with several other liquidity enhancing measures being separately announced by the Reserve Bank should ease financing conditions and address financial stability risks. I also vote for persevering with the accommodative stance as long as necessary to revive growth and to mitigate the adverse impact of COVID-19, while ensuring that inflation remains within the target.

Statement by Dr. Michael Debabrata Patra

56. The corona virus's *danse macabre* is taking a catastrophic toll on human lives. Economic dislocation is severe, and markets are in turmoil. Affected nations have taken wide-ranging health services support, stabilisation and regulatory measures to ease the conduct of financial and economic activity and try to alleviate the destruction wrought by the pandemic. Global growth projections are being slashed and the world economy

appears to be staring at a deep recession, but the full effects of the losses incurred are still unknown, especially as expectations that the virus outbreak would be contained in the first quarter of 2020 have been belied.

57. India has locked down and a state of siege prevails. Several types of activity have come to a standstill with social isolation, supply disruptions, demand contraction and heightened anxiety. The outlook for the economy is highly uncertain and shifts with every incoming data on the impact of the virus. Prospects for the Indian economy now hinge around how pervasive and severe COVID-19 turns out to be, and how long it lasts.

58. In these challenging circumstances, monetary policy has to assume an *avant garde* role. Even as it fights the corrosive impact of COVID-19 on macroeconomic and financial conditions, monetary policy has to provide confidence and assuage fear. This involves easing financing conditions for people and institutions, keeping finance flowing to all agents in the economy, ensuring that markets do not freeze up, providing the assurance that the Reserve Bank of India is at the forefront in the war against COVID-19 and will use all instruments at its command to fight the virus and mitigate its fall out. It is important, however, to emphasise that COVID-19 is a global crisis and warrants action beyond the remit of monetary policy, within the country, and across the world.

59. In my minutes in February 2020, I had stated that "the coronavirus outbreak has imparted new and uncertain risks in response to which the world is grappling to fashion a credible response." My sense at that time was that the MPC has entered a tunnel of testing trade-offs (TTT) and it may be a while before the light at the end of the tunnel is sighted. Today, as that prognosis materialises with disturbing intensity, I believe that the MPC is being called upon to rise beyond its mandate. The MPC must show the way with the powerful decision that it wields. By doing so, it will leverage and catalyse the Reserve Bank into the battlefront role that has to be undertaken for the greater common good. It is in this context that the rate decision of the MPC has to be significant enough to reach various troubled sectors and ease their financing constraints decisively as well as transmit positive announcement effects across the economy to dispel gloom and instil confidence.

60. Accordingly, I vote for a reduction in the policy rate and for maintaining an accommodative policy stance for as long as necessary to fight COVID-19 and revive growth. What should be the size of the reduction? Inflation has peaked and will likely ease well below the target in the second half of 2020-21. In the extreme scenario in which we are, however, the easing off of inflation may occur sooner and faster. In terms of the primary mandate given to the MPC, this outlook offers the scope for taking a calculated risk on current levels of inflation – which rule above the target – and focus on the 12 months ahead forecast. By this rule, there is space for policy action that is large in size relative to its past but still keeps the policy rate positive in real terms over a one year ahead horizon so as to see off any lingering or latent inflationary pressures. Meanwhile, the output gap is widening and may become pronouncedly negative as the situation evolves. In order to address these macroeconomic challenges, ease financial conditions substantially and infuse confidence, I vote for a cut in the policy rate of 75 basis points. COVID-19 is a global danger; our defence must be collective and coordinated even with social distancing. All stakeholders must muster inner strength and determination to stay the course and fight the scourge.

Statement by Shri Shaktikanta Das

61. The global macroeconomic situation has abruptly worsened in the last fortnight or so and the authorities and central banks in many countries have deployed an extensive range of targeted policy instruments to deal with the macroeconomic fallout of COVID-19, caused by lockdowns and social distancing. The outbreak of COVID-19 has seriously dented global growth prospects. Across the world, activity has come to a near standstill. There is a rising probability of a global recession, which may be deeper than the one experienced during the global financial crisis.

62. In India also, the near-term growth outlook has deteriorated sharply: initially reflecting global spillovers and the amplification of the impact of COVID-19; and thereafter, due to the much needed efforts mounted by the Government to contain the pandemic by declaring a nationwide lockdown of 21 days up to April 14, 2020. Prior to the outbreak, some high frequency indicators such as manufacturing, railway freight traffic, exports and imports in January/February had improved after several months of contraction/deceleration. With COVID-19, however, industry and service sector activities are likely to be severely impacted and the extent of the adverse impact would depend upon the intensity, spread and duration of COVID-19. The only silver lining is likely to be agriculture, which is expected to remain resilient, with foodgrains production for 2019-20 estimated (second advance estimates or SAE) at a record 292 million tonnes – 3.8 per cent higher than the SAE for 2018-19. The setback to economic activity could be cushioned, to an extent, by the collapse in crude oil prices; but there could be certain downsides in the form of decline in remittances from oil producing countries.

63. On the inflation front, the outlook has changed drastically. The inflation print for February 2020 softened by 100 basis points to 6.6 per cent from 7.6 per cent in January. Going forward, inflation outcomes are likely to be shaped significantly by COVID-19 and the sharp fall in oil prices. Food prices may also soften further on the back of record foodgrains and horticulture production. The usual uptick that begins in summer months may remain subdued if demand conditions take longer to normalise. The weakening of domestic aggregate demand may also help to contain core inflation.

64. The Reserve Bank has been proactively managing liquidity in the system. Overall liquidity in the system continued to remain in large surplus at close to ₹3.0 lakh crore on an average per day in February and March 2020 so far. With a view to facilitating monetary transmission, the Reserve Bank conducted five long term repo operations (LTRO) between February 17 and March 18, 2020 for one-year and three-year tenors aggregating ₹1.25 lakh crore. In order to ease financial conditions, which had tightened due to a sharp drop in trading volumes and consequent illiquidity, the Reserve Bank has taken several measures to inject further substantial liquidity in the system such as (i) conducting two 6-month US$ sell/buy swap auctions on March 16 and March 23, 2020 cumulatively injecting dollar liquidity of US$ 2.71 billion; (ii) injecting ₹40,000 crore through three open market operation (OMO) purchase auctions on March 20, 24 and 26, 2020; (iii) injecting ₹77,745 crore through two fine-tuning variable rate 16-day repos on March 23 and 24, 2020; and (iv) injecting ₹11,772 crore through one fine-tuning variable rate repo auction of 12-days maturity on March 26.

65. The COVID-19 pandemic is an invisible assassin which needs to be contained quickly before it spreads and wreaks havoc on valuable human lives and the macro

economy. In this scenario, it is important to ensure that finance, which is the lifeline of the economy, keeps flowing seamlessly to various sectors of the economy. It is comforting that the macroeconomic fundamentals of the Indian economy continue to be sound, especially in comparison with the conditions that prevailed in the aftermath of the global financial crisis.

66. We are living through an extraordinary time and the situation currently facing the country is unprecedented. It, therefore, becomes imperative to make all-out efforts to protect the domestic economy from the adverse impact of the pandemic. The Government has announced several measures to protect the vulnerable sections of society. The Reserve Bank is undertaking measures almost on a daily basis to provide relief and financial accommodation to various segments of the economy. The path to normalisation of activity, however, is contingent on how India's COVID-19 epidemiological curve evolves, amidst heightened uncertainty. Growth impulses face strong headwinds from sluggish aggregate demand and disruptions in supply of labour and key inputs, including imports. The erosion of consumer confidence and investment sentiment can operate in an adverse feedback loop to worsen the growth outlook even further. In this emerging scenario, monetary policy needs to proactively arrest any deterioration in aggregate demand, and thereby create enabling conditions for businesses to normalise production and supply chains as and when the situation becomes conducive for resumption of economic activity. The space for policy action has opened up in view of the disinflationary effects of deceleration in demand under the impact of COVID-19. Weaker overall demand outlook and lower crude oil prices should keep upside risks to inflation firmly contained, even in the face of temporary supply chain disruptions and scope for opportunistic use of pricing power. Arresting risks to the growth outlook and preserving financial stability should, accordingly, receive the highest priority. Considering all these aspects, I vote for reducing the policy repo rate by a sizable 75 basis points and maintaining the accommodative stance as long as necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target. The substantial rate cut, along with several other regulatory and liquidity augmenting measures being announced as a part of developmental and regulatory policies today, convey the resolve of the Reserve Bank to deal with the macroeconomic fallout of COVID-19 pre-emptively. The Reserve Bank will continue to remain vigilant and will not hesitate to use any instrument – conventional and unconventional – to mitigate the impact of COVID-19, revive growth and preserve financial stability.

(Yogesh Dayal)
Chief General Manager

Press Release : 2019-2020/2207