RBI reduces repo rate in First Bi-monthly Monetary Policy Statement, 2019-20

Policy repo rate reduced to 6% from 6.25% (25 basis points cut)

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) has decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.0 per cent from 6.25 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.25 per cent. The MPC also decided to maintain the neutral monetary policy stance. 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 RBI policy rates so far

Components	07th June 2017	02nd August 2017	4th Oct 2017	6th Dec 2017	7th Feb 2018	05th April 2018	06th June 2018	01st Aug 2018	05th Oct 2018	5th Dec 2018	07th Feb 2019	04th April 2019
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Repo Rate	6.25%	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	6.50%	6.50%	6.50%	6.25%	6.00%
Reverse Repo Rate	6.0%	5.75%	5.75%	5.75%	5.75%	5.75%	6.0%	6.25%	6.25%	6.25%	6.0%	5.75%
WPI Inflation	3.85% (Apr-	0.9% (Jun-	3.24% (Aug-	3.59% (Oct-	3.6% (Dec-	2.5% (Feb-	3.2% (Apr-	5.77% (Jun-18)	4.53% (Aug-	5.28% (Oct-	3.8% (Dec-18)	2.9% (Feb-

	17)	17)	17)	17)	17)	18)	18)		18)	18)		19)
CPI inflation\@	2.99% (Apr-17)	1.5% (Jun-17)	3.36% (Aug-17)	3.6% (Oct-17)	5.2% (Dec-17)	4.44% (Feb-18)	4.6% (Apr-18)	5.00% (Jun-18)	3.69% (Aug-18)	3.31% (Oct-18)	2.2% (Dec-18)	2.6% (Feb-19)
IIP growth	2.5% (Mar-17)	1.7% (May-17)	1.2% (July-17)	3.8% (Sep-17)	8.4% (Nov-17)	7.5% (Jan-18)	4.4% (Mar-18)	3.2% (May-18)	6.60% (Jul-18)	4.5% (Sep-18)	0.5% (Nov-18)	1.7% (Jan-19)
Real GDP growth	7.3% ^&**	7.3% ^&***	6.7% ^&^	6.7% ^&^^	6.6% ^&^*	7.4% (2018-19)$#	7.4% 2018-19)$##	7.4% 2018-19)$###	7.4% 2018-19 $####	7.4% 2018-19 $####^	7.4% 2019-20 $####^*	7.2% 2019-20

Source: PHD Research Bureau, compiled from various sources, Note:, , #Data for Gross domestic product for Q2 of 2014-15, ^Data for Oct 2014, ^^ Data for November 2014 , ^^^December 2014," Data for Jan 2015, "" Data for Feb 2015, *Data for Sep 2014, ** Data for Oct 2014 and *** Data for Nov 2014.@ Data for Dec 2014. Note: The Ministry of Statistics & Programme Implementation has released the new series of national accounts, revising the base year from 2004-05 to 2011-12. With this backdrop, real GDP growth for 2012-13 is estimated at 5.1% and 6.9% for 2013-14, $Advance estimates of national income 2014-15 MOSPI, @*** Data for August 2015 @#* Feb 2016 @#** January 2016 @^^^^Data for Sep 2015; RBI projection of GVA growth for 2015-16, \@CPI inflation for the respective month of the year. ^&* GVA growth for 2017-18 as per First Bi-monthly Monetary Policy Statement, 2017-18, ^&** GVA growth for 2017-18 as per Second Bi-monthly Monetary Policy Statement, 2017-18, ^&*** GVA growth for 2017-18 as per Third Bi-monthly Monetary Policy Statement, 2017-18. ^&^ GVA growth for 2017-18 as per Fourth Bi-monthly Monetary Policy Statement, 2017-18. ^&^^ GVA growth for 2017-18 as per Fifth Bi-monthly Monetary Policy Statement, 2017-18. ^&^* GVA growth for 2017-18 as per Sixth Bi-monthly Monetary Policy Statement, 2017-18. $# Projections by RBI in First Bi-monthly Monetary Policy Statement, 2018-19, $## Projections by RBI in Second Bi-monthly Monetary Policy Statement, 2018-19, $### Projections by RBI in Third Bi-monthly Monetary Policy Statement, 2018-19, $#### Projections by RBI in Fourth Bi-monthly Monetary Policy Statement, 2018-19, $####^ Projections by RBI in Fifth Bi-monthly Monetary Policy Statement, 2018-19, $####^* Projections by RBI in Sixth Bi-monthly Monetary Policy Statement, 2018-19, ~ Projections by RBI in First Bi-monthly Monetary Policy Statement, 2019-20

Snapshot of the First Bi-monthly Monetary Policy Statement, 2019-20

Since the last MPC meeting in February 2019, global economic activity has been losing pace. In the US, the subdued performance in the final quarter of 2018 appears to have continued into Q1:2019 as reflected in declining factory activity. The Euro area slowed down in Q4:2018 on soft domestic demand and contracting manufacturing activity. Of its constituents, the Italian economy contracted for two consecutive quarters in Q3 and Q4. In the UK, growth slowed down on Brexit uncertainty, with industrial production contracting during September-January. The Japanese economy rebounded in Q4 on increased domestic consumption expenditure and recovering investment spending. However, the latest data on manufacturing activity and business confidence suggest that growth lost momentum in Q1:2019. The monetary policy stances of the US Fed and central banks in other major advanced economies (AEs) have turned dovish.

Turning to the domestic economy, the second advance estimates for 2018-19 released by the Central Statistics Office (CSO) in February 2019 revised India's real gross domestic product (GDP) growth downwards to 7.0 per cent from 7.2 per cent in the first advance estimates. Domestic economic activity decelerated for the third consecutive quarter in Q3:2018-19 due to a slowdown in consumption, both public and private. However, gross fixed capital formation (GFCF) growth remained in double digits for the fifth consecutive quarter in Q3, with the GFCF to GDP ratio rising to 33.1 per cent in Q3:2018-19 against 31.8 per cent in Q3:2017-18, supported primarily by the government's thrust on the road sector and affordable housing. The drag on aggregate demand from net exports also moderated in Q3 due to a marginal acceleration in exports and a sharp deceleration in imports led by a decline in crude oil prices.

Committee on the Development of Housing Finance Securitisation Market: The Reserve Bank has decided to constitute a Committee that will assess the state of housing finance securitisation markets in India; study the best international practices as well as lessons learnt from the global financial crisis; and propose measures to further develop these markets in India by identifying critical steps required such as, inter alia, definition of conforming mortgages, mortgage documentation standards, digital registry for ease of due diligence and verification by investors, avenues for trading in securitised assets, etc. The composition and terms of reference of the Committee will be announced shortly. The Report of the Committee will be due by the end of August, 2019.

Task Force on the Development of Secondary Market for Corporate Loans: Recognising the benefits of an active secondary market in loans, the Reserve Bank will set up a Task Force to study the relevant aspects including best international practices and propose measures for developing a thriving secondary market for corporate loans in India. The measures explored would include, inter alia, loan contract standards, digital loan contract registry, ease of due diligence and verification by potential loan buyers, online platform for loan sales/ auctions, and accessible archive of historical market data on bids and sale prices for loans.

Permitting G-sec trading through International Central Securities Depositories (ICSDs): Pursuant to the announcement made in the Union Budget for 2014-15 on "allowing international settlement of Indian debt securities", the Reserve Bank, in consultation with the Government, had initiated discussions with ICSDs to permit their non-resident clients to transact in Government securities. It is now proposed to commence the process of implementation of international settlement of Government securities by ICSDs. This would open up a new channel for non-residents to undertake Government securities transactions. Operational details in this regard will be worked out with ICSDs in consultation with the Government and the Securities Exchange Board of India (SEBI).

Licensing of Non-Banking Financial Companies (NBFCs) as Authorised Dealer Category II: With a view to improve the ease of undertaking forex transactions by increasing the last-mile touch points of regulated entities to sell foreign exchange for non-trade current account transactions, it has been decided that non-deposit taking systemically important Non-Banking Financial Companies (NBFCs-NDSI) in the category of Investment & Credit Companies (ICCs) will be made eligible to apply for grant of Authorised Dealer Category II licence. Detailed instructions in this regard shall be issued by the end of April 2019.

Convergence of Priority Sector Lending (PSL) guidelines for housing loans between Scheduled Commercial Banks (SCBs) and Regional Rural Banks (RRBs) & Small Finance Banks (SFBs): The housing loan limits for eligibility under Priority Sector Lending were revised during June 2018 for Scheduled Commercial Banks (excluding Regional Rural Banks and Small Finance Banks). It has been decided to extend the same regulation to the Regional Rural Banks and Small Finance Banks. This is aimed to bring these banks at a level-playing field with other scheduled commercial banks. A circular in this regard shall be issued by the end of April 2019

Countercyclical Capital Buffer: The framework on countercyclical capital buffer (CCCB) was put in place by the Reserve Bank in terms of guidelines issued on February 5, 2015 wherein it was advised that the CCCB would be activated as and when the circumstances warranted, and that the decision would normally be pre-announced. The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators, viz., the Credit-Deposit (C-D) ratio for a moving period of three years (given its correlation with the credit-to-GDP gap and GNPA growth), industrial outlook (IO) assessment index (with due note of its correlation with GNPA growth), and interest coverage ratio (noting its correlation with the credit-to-

GDP gap). Based on the review and empirical testing of CCCB indicators, it has been decided that it is not necessary to activate CCCB at this point in time.

Outlook

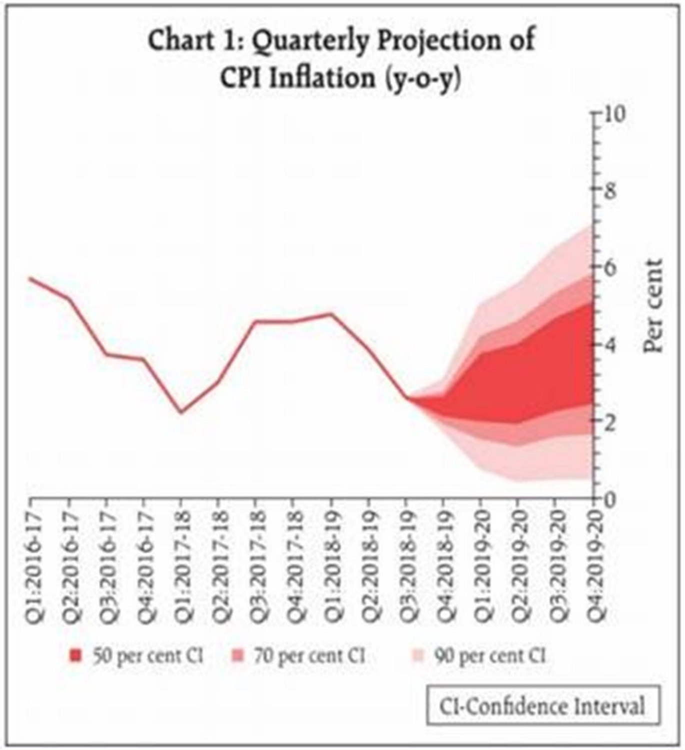
GDP growth for 2019-20 is projected at 7.2 per cent – in the range of 6.8-7.1 per cent in H1:2019-20 and 7.3-7.4 per cent in H2

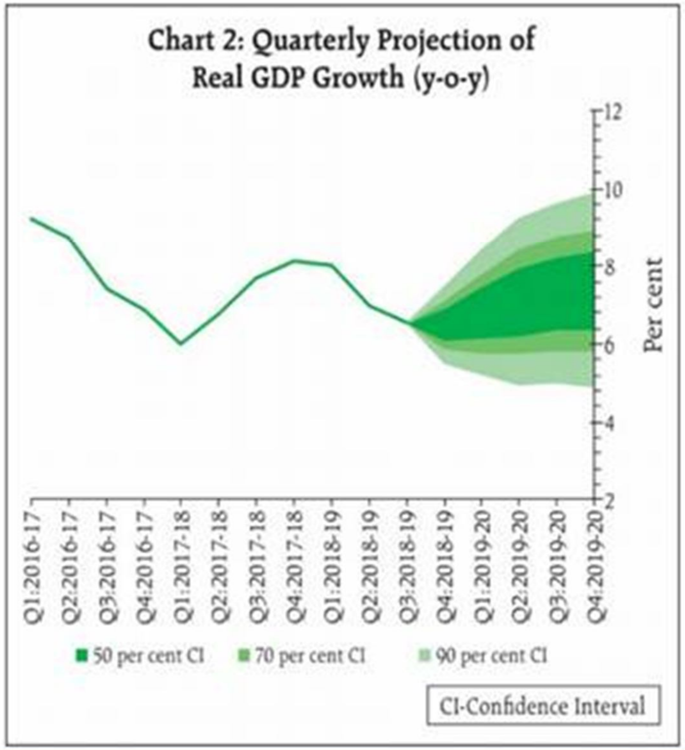
In the sixth bi-monthly monetary policy resolution of February 2019, CPI inflation was projected at 2.8 per cent for Q4:2018-19, 3.2-3.4 per cent for H1:2019-20 and 3.9 per cent for Q3:2019-20, with risks broadly balanced around the central trajectory. Actual inflation outcomes averaged 2.3 per cent in January-February. The inflation path during 2019-20 is likely to be shaped by several factors. First, low food inflation during January-February will have a bearing on the near-term inflation outlook. Second, the fall in the fuel group inflation witnessed at the time of the February policy has become accentuated.

Third, CPI inflation excluding food and fuel in February was lower than expected, which has imparted some downward bias to headline inflation. Fourth, international crude oil prices have increased by around 10 per cent since the last policy. Fifth, inflation expectations of households as well as input and output price expectations of producers polled in the Reserve Bank's surveys have further moderated. Taking into consideration these factors and assuming a normal monsoon in 2019, the path of CPI inflation is revised downwards to 2.4 per cent in Q4:2018-19, 2.9-3.0 per cent in H1:2019-20 and 3.5-3.8 per cent in H2:2019-20, with risks broadly balanced.

GDP growth for 2019-20 in the February policy was projected at 7.4 per cent in the range of 7.2-7.4 per cent in H1, and 7.5 per cent in Q3 – with risks evenly balanced. Since then, there are some signs of domestic investment activity weakening as reflected in a slowdown in production and imports of capital goods. The moderation of growth in the global economy might impact India's exports. On the positive side, however, higher financial flows to the commercial sector augur well for economic activity. Private consumption, which has remained resilient, is also expected to get a fillip from public spending in rural areas and an increase in disposable incomes of households due to tax benefits. Business expectations continue to be optimistic. Taking into consideration the above factors, GDP growth for 2019-20 is projected at 7.2 per cent – in the range of 6.8-7.1 per cent in H1:2019-

20 and 7.3-7.4 per cent in H2 – with risks evenly balanced.





Source: RBI

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.

Warm Regards,

Dr S P Sharma

Chief Economist

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016, India
Tel: +91 49545454
Fax: +91 11 26855450
Email: spsharma@phdcci.in
Website: www.phdcci.in
Follow us on

"Towards an Inclusive & Prosperous India"

PHD CHAMBER OF COMMERCE AND INDUSTRY
PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947
Connect with us: