

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

Policy repo rate reduced to 5.75% from 6% (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 5.75 per cent from 6.0 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.50 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.0 per cent. The MPC also decided to change the stance of monetary policy from neutral to accommodative. 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	02 nd August 2017	4 th Oct 2017	6 th Dec 2017	7 th Feb 2018	05 th April 2018	06 th June 2018	01 st Aug 2018	05 th Oct 2018	5 th Dec 2018	07 th Feb 2019	04 th April 2019	06 th June 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	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	6.50%	6.50%	6.50%	6.25%	6.00%	5.75%
Reverse Repo Rate	5.75%	5.75%	5.75%	5.75%	5.75%	6.0%	6.25%	6.25%	6.25%	6.0%	5.75%	5.50%
WPI Inflation	0.9% (Jun-17)	3.24% (Aug-17)	3.59% (Oct-17)	3.6% (Dec-17)	2.5% (Feb-18)	3.2% (Apr-18)	5.77% (Jun-18)	4.53% (Aug-18)	5.28% (Oct-18)	3.8% (Dec-18)	2.9% (Feb-19)	3.1% (Apr-19)
CPI inflation\@	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)	2.9% (Apr-19)

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IIP growth	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)	(-) 0.1% Mar-19
Real GDP growth	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)	7.0% (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 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 Second Bi-monthly Monetary Policy Statement, 2019-20

Global economic activity has been losing pace after a somewhat improved performance in Q1:2019, reflecting further slowdown in trade and manufacturing activity. Among advanced economies (AEs), economic activity in the US strengthened in Q1, supported by higher government spending, increase in private investment and a lower trade deficit. Economic activity has slowed in many emerging market economies (EMEs). In Q1:2019, the Chinese economy grew at the same pace as in the previous quarter, though slightly above consensus expectations. However, incoming data on industrial production and retail sales suggest that the growth momentum may weaken in Q2.

Crude oil prices remained volatile, reflecting evolving demand-supply conditions underpinned by the production stance of the OPEC plus, rising shale output, weakening global demand and geopolitical concerns. The strengthening of the US dollar had weakened gold prices; however, prices picked up since the last week of May on escalating trade tensions, reviving its demand as a safe haven asset. Inflation remains below target in several economies, though it has shown an uptick since March.

Turning to the domestic economy, on May 31, 2019 the National Statistical Office (NSO) released quarterly estimates of gross domestic product (GDP) for Q4:2018-19 and provisional estimates of national income for 2018-19. GDP growth for 2018-19 has been estimated at 6.8 per cent year-on-year (y-o-y), down by 20 basis points from the second advance estimates released on February 28, pulled down by a downward revision in private final consumption expenditure (PFCE) and moderation in exports. Quarterly data show that domestic economic activity decelerated sharply to 5.8 per cent in Q4:2018-19 from 6.6 per cent in Q3 and 8.1 per cent in Q4:2017-18. Gross fixed capital formation (GFCF) growth declined sharply to 3.6 per cent, after remaining in double digits in the previous five quarters. Private consumption growth also moderated. The drag on aggregate demand from net exports increased in Q4 due to a sharper deceleration in exports relative to imports. However, the overall slowdown in growth was cushioned by a large increase in government final consumption expenditure (GFCE).

Leverage Ratio for Banks: Keeping in mind financial stability and with a view to moving further towards harmonisation with Basel III standards, it has been decided by RBI that the minimum LR should be 4% for Domestic Systemically Important Banks (DSIBs) and 3.5% for other banks. The instructions in this regard shall be issued before end of June 2019.

Regulatory and Supervisory Framework for Core Investment Companies (CICs): Over the years, corporate group structures have become more complex involving multiple layering and leveraging, which has led to greater inter-connectedness to the financial system through their access to public funds. Further, in light of recent developments, there is a need to strengthen the corporate governance framework of CICs. Accordingly, it has been decided by RBI to set up a Working Group to review the regulatory guidelines and supervisory framework applicable to CICs.

Internal Working Group to Review Liquidity Management Framework: RBI has decided to constitute an Internal Working Group to review comprehensively the existing liquidity management framework and suggest measures, among others, to (i) simplify the current liquidity management framework; and (ii) clearly communicate the objectives, quantitative measures and toolkit of liquidity management by the Reserve Bank. The Group is expected to submit its report by mid-July 2019.

Comprehensive Review of Money Market directions: With the objective of bringing consistency across products in terms of issuers, investors and other participants, it is proposed to rationalize existing regulations covering different money market products. These directions would improve transparency and safety of money markets. A draft Direction on Money Market shall be issued for public feedback by the end of July 2019.

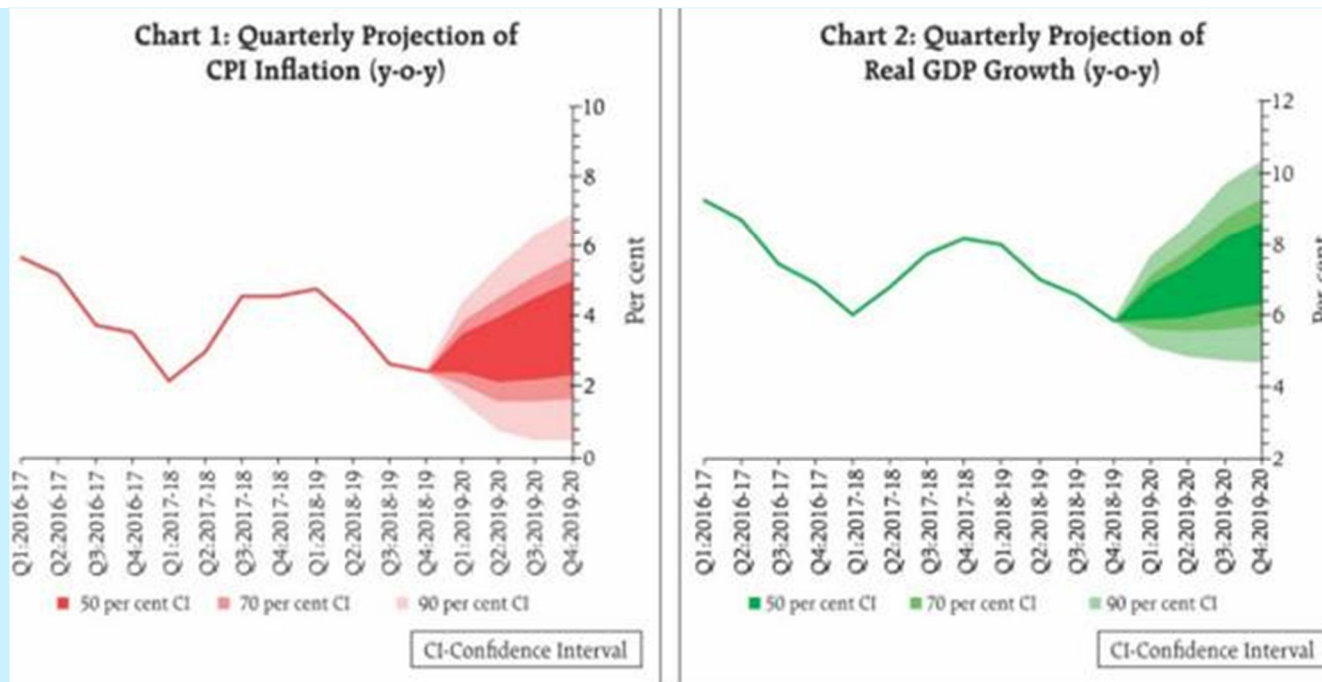
Retail Participation in the Government Security Market: RBI has decided to allow the Specified Stock Exchanges to act as Aggregators/Facilitators to aggregate the bids of their stockbrokers/other retail participants and submit a single consolidated bid under the noncompetitive segment of the primary auctions of State Development Loans (SDLs). The measure will be implemented in consultation with the respective State governments.

Outlook

GDP growth for 2019-20 is revised downwards from 7.2 per cent in the April 2019 policy to 7.0 per cent – in the range of 6.4-6.7 per cent for H1:2019-20 and 7.2-7.5 per cent for H2

In the April 2019 policy, GDP growth for 2019-20 was projected at 7.2 per cent – in the range of 6.8-7.1 per cent for H1 and 7.3-7.4 per cent for H2 – with risks evenly balanced. Data for Q4:2018-19 indicate that domestic investment activity has weakened and overall demand has been weighed down partly by slowing exports. Weak global demand due to escalation in trade wars may further impact India's exports and investment activity. Further, private consumption, especially in rural areas, has weakened in recent months. However, on the positive side, political stability, high capacity utilisation, the uptick in business expectations in Q2, buoyant stock market conditions and higher financial flows to the commercial sector augur well for investment activity. Taking into consideration the above factors and the impact of recent policy rate cuts, GDP growth for 2019-20 is revised downwards from 7.2 per cent in the April policy to 7.0 per cent – in the range of 6.4-6.7 per cent for H1:2019-20 and 7.2-7.5 per cent for H2 – with risks evenly balanced.

In the bi-monthly monetary policy resolution of April 2019, CPI inflation was projected at 2.4 per cent for Q4:2018-19, 2.9-3.0 per cent for H1:2019-20 and 3.5-3.8 per cent for H2:2019-20, with risks broadly balanced. The headline inflation outcome in Q4 at 2.5 per cent was largely in alignment with the April policy projections.



Source: RBI

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