

RBI releases its Annual Report 2018-19

RBI has released its Annual report 2018-19 which highlights the economic review, developments related to monetary policy operations, credit delivery and financial inclusion, financial markets and foreign exchange management developments, regulation, supervision and financial stability, among others. It also provided prospects for the year 2019-20. The key highlights of the Annual Report 2018-19 of RBI are as follows:

Economic Review: Economic activity moderated during the financial year (FY) 2018-19 dragged down by subdued global demand and also some slack in government consumption expenditure. Inflation eased further to 3.4 per cent and undershot the target of 4 per cent for the second successive year, led by a sharp decline in food inflation. Monetary indicators such as currency, deposits and credit moved further towards their pre-demonetisation trend, reflecting underlying macroeconomic and financial developments. Financial markets exhibited resilience except sporadic volatility as evident from the buoyant equity market, two-way movement in INR and call money rate remained aligned to the policy repo rate albeit with downward bias. Public finances recorded modest deviations from budgetary targets of gross fiscal deficit across the general government. On the external front, net capital flows remained moderate relative to current account deficit, which led to depletion of foreign exchange reserves during the year

Monetary Policy operations: Inflationary pressures emanating from volatile international crude oil prices, and currency depreciation in the first half of the year, cooled down markedly in the second half, driven down by moderation in crude oil prices and a collapse

in food prices. The monetary policy committee cut the policy repo rate by 75 basis points during February-June 2019. Forex operations by the Reserve Bank and large currency expansion exacerbated the pressure on system level liquidity, warranting active liquidity management. Banks' deposit and lending rates reflected the movements in the policy repo rate, though transmission remained uneven across sectors.

Credit Delivery and Financial Inclusion: The Reserve Bank has made sustained efforts during the year to increase the penetration of formal financial services in unbanked areas, while continuing with its policy of ensuring adequate flow of credit to all productive sectors of the economy. Some of the new initiatives during the year include setting up of an expert committee/working group to examine the issues relating to credit flow to MSMEs and agriculture sectors, and allowing SCBs to co-originate loans with non-deposit taking systemically important NBFCs for credit delivery to the priority sector. Further, the National Strategy for Financial Inclusion 2019-24 was prepared, besides ongoing measures to strengthen financial literacy and inclusion in the country.

Financial Markets and Foreign Exchange Management: During 2018-19, the Reserve Bank undertook several measures, to broaden participation in financial markets, ease access and transaction norms for participants, widen the range of financial products, improve financial market infrastructure and pursue rigorous surveillance to maintain market integrity. The Reserve Bank conducted liquidity management operations (including FX swap auctions) for maintaining an appropriate level of liquidity in the financial system and intervention operations in the foreign exchange market to contain volatility. In the endeavour to facilitate trade and payments along with orderly development of the foreign exchange market, efforts were made to streamline regulations and align them with the current business and economic environment. The external commercial borrowings regime was also rationalised during the year

Regulation, Supervision and Financial Stability: Against the backdrop of asset quality concerns in the banking sector, guidelines on loan systems for delivery of bank credit

were issued in order to enhance credit discipline among large borrowers. To further the efforts of resolution of stressed assets, and in light of the judgment of the Hon'ble Supreme Court of India declaring the then existing framework as ultra vires, the revised prudential guidelines for resolution of stressed assets were issued. Alignment of the Statutory Liquidity Ratio (SLR) with the Liquidity Coverage Ratio (LCR), new guidelines on implementation of liquidity standards and capital regulation under Basel III, strengthening of data protection and cyber security norms, Ombudsman Scheme for Digital Transactions (OSDT) and harmonisation of regulations of various categories of non-banking financial companies (NBFCs) were carried out during the year. Regulatory and supervisory policies for cooperative banks were harmonised with those of scheduled commercial banks (SCBs).

Public Debt Management: In pursuance of the objectives of debt management of cost minimisation, risk mitigation and market development, the Reserve Bank successfully conducted the market borrowing programmes of the centre and states during 2018-19 in the face of global spillovers, volatile financial markets and perceptions of oversupply of paper among the market participants.

Prospects for 2019-20: The macroeconomic environment remains unsettled and financial markets are experiencing considerable flux as the financial year 2019-20 progresses. Global economic activity appeared to rebound in January-March 2019 especially in advanced economies as monetary stances were eased in response to the slowdown. Crude oil prices remained soft and financial market recouped some lost ground. In the ensuing months, however, these expectations have been belied by incoming data. Several downside risks seem to be materialising in the form of escalation of trade tensions, geopolitical strife and renewed financial volatility in EMEs as portfolio flows have shown signs of weakening. Financial markets have remained edgy and volatile amidst these uncertainties, which are being reflected in repeated downgrades of forecasts of global growth.

Notably, the IMF expects global growth to slow down to 3.2 per cent in 2019 from 3.6 per cent in the previous year, its fourth successive downward revision since October 2018. Central banks are gearing up to become increasingly accommodative, with reductions in policy rates. This has stoked apprehensions that the global economy may be weakening more than what the headline numbers suggest.

Turning to India, the MPC projected real GDP growth for 2019-20 at 6.9 per cent in its August 2019 meeting, with risks somewhat tilted to the downside. Effectively, the MPC marked down its projection by 50 basis points since its first projection of real GDP growth for 2019-20 was placed in the public domain in February 2019.

Please find enclosed detailed Annual Report Released by RBI for 2018-19 for your kind reference.

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Warm Regards,

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