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The MPC member kept the GDP growth forecast constant at 7% for FY20 while lowering the average growth rate for FY20 from earlier projected 7.2% to 7%.

The MPC members revised the inflation targets upward to 3.1-3.3% in H1FY20 and 3.4-3.7% in H2FY20.

MPC has cut down the GDP growth rate in H1FY20, but the committee expects growth to be back on track by infusing liquidity through OMOs to the tune of 40k Crs

Second Bi-Monthly Monetary Policy of Fiscal 2020

The MPC (Monetary Policy Committee) of the RBI has decided to maintain the rate cut on interest rates and slashed the repo rates for third time in a row under the new governor by 25 bps to 5.75%. The reverse repo too was slashed by 25 bps to 5.5%. The Statutory liquidity ratio (SLR) was maintained at the same rate of 19.25%. CRR was also kept unchanged at 4%. The reduction of interest rates was on expected lines as market consensus had predicted easing of monetary policy due to benign inflation on account of lower crude prices. The tone of the MPC was unanimously changed from 'Neutral' to 'accommodative' stance and increased the inflation target marginally.

Maintains GDP forecast at 7% for FY20

The MPC member kept the GDP growth forecast constant at 7% for FY20 while lowering the average growth rate for FY20 from earlier projected 7.2% to 7%. The MPC members have lowered the GDP range in the near term on account of global slowdown and consumption slowdown due to liquidity issues in the home country to 6.4-6.7% from earlier range of 6.8 – 7.1% in H1FY20 and expect recovery in H2 which led to upward revision of GDP growth rate to 7.2-7.5% from earlier 7.3-7.4% in H2FY20.

Uptick in inflation target.

On inflation front, the committee has started to feel ease on inflation stating to be on a comfortable levels and has marginally increased the CPI targets upward to 3.1-3.3% from earlier mentioned 2.9-3% in H1FY20. The committee has set the range of 3.4-3.7% for H2FY20 from the earlier range of 3.5-3.8%. The chief reason for an uptick in inflation is as primarily due to spur consumption which has taken a backseat. Though the revised range broadly falls in the RBI's comfortable levels of 4 % (+/-2), we feel steep decline in the crude prices shall also weigh for an upward revision of the inflation targets to infuse growth back in the economy.

Outlook

RBI for the third time in a row after the appointment of the new governor has cut Repo rates by 75 bps in totality to 5.75% with a change in stance to 'accommodative' from the earlier stance of 'Neutral' followed by an uptick in the inflation targets to infuse growth in the economy. Though the MPC has cut down the GDP growth rate in H1FY20, but the committee expects growth to be back on track by infusing liquidity through OMOs to the tune of 40k Crs announced so-far in FY20 and quick transmission of repo rates by the banks, will act as a breather for the Housing finance customers. On account of lower crude prices and stable inflation, we expect further 50 bps rate cuts which will aid the bond yields to trade around 7-7.2% on account of marginal upward revision of inflation targets.

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