

February 07, 2019

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Sixth Bi-Monthly Monetary Policy of Fiscal 2019

The MPC (Monetary Policy Committee) of the RBI has decided to reduce the interest rates by 25 bps which reduced the repo rates to 6.25% from earlier 6.5% , the first cut after Aug, 2017. The reverse repo too was slashed by 25 bps to 6.00%. The Statutory liquidity ratio (SLR) was maintained at the same rate of 19.25%. The reduction of the repo rate was on unexpected lines as market consensus had predicted a rate cut but in the new financial year and not in the maiden policy of the new governor. The tone of the MPC changed from “Calibrated tightening” to “Neutral” stance of monetary policy in consonance and reduced the inflation target for the H2FY19 and H1FY20, while supporting GDP growth target of above 7%.

Maintains GDP Forecast above 7% for FY20.

The MPC member kept the GDP forecast constant at above 7% for FY20 and expects it be at 7.4% in FY20. The MPC members of the committee expect the GDP forecast to 7.5% for 3QFY19. The governor feels that multiple factors like fall in crude prices, lower inflation, higher liquidity by way of rise in the MSP prices and increase in the capacity utilization rate will lead to increase in the growth in the economy.

Downtick in Inflation

On inflation, the committee has started to feel the ease on the inflation side and the new governor has for the first time in its maiden policy has cut the inflation targets lower for March quarter to 2.8%, 3.2%-3.4% in H1FY20 from 3.8-4.2% projected earlier in H1FY20 and 3.9% in 3QFY20. The chief reason for steep decline in the inflation is due to fall in crude prices to \$ 61 per barrel from \$85 per barrel. The RBI also projects food inflation to be benign as a result slashed food inflation target thereby raising hopes of further rate cuts.

Outlook

RBI for the first time after 17 months has lowered the repo rate with the change in its stance to Neutral from calibrated accommodative stance followed by softening the inflation targets steeply on account of falling crude prices and stronger rupee. The RBI has also maintained GDP growth rate of above 7% in its current policy and slashing repo rate will definitely boost liquidity into the system. The governor also hinted for adequate liquidity into the system. If crude continues to stay at a current levels of 60\$ / barrel, we feel, we can witness one rate cut in the early bi-monthly policy of the next financial year.

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