

RBI Credit Policy

In Line Policy, Room for Another Cut

Rates Change

Growth Outlook

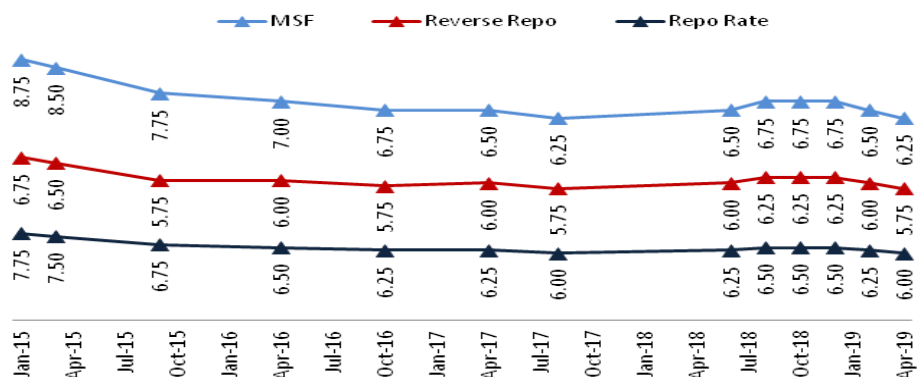
Inflation outlook

| Monetary Rates | Feb-19 | Apr-19 |
|----------------|--------|--------|
| Repo Rate | 6.25 | 6.00 |
| Reverse Repo | 6.00 | 5.75 |
| MSF | 6.50 | 6.25 |

Key Highlights

- ❑ **RBI in its 1st bi-monthly policy decided to reduce the repo rate by 25 basis points to 6.00% from 6.25%.** As a result of which the reverse repo rate now stands adjusted at 5.75% and Marginal Standing Facility at 6.25%. The MPC has however reiterated for their stance to remain 'neutral'.
- ❑ This marks 2 rate cuts in a row for the repo rate for the liquidity crunched economy.
- ❑ **The RBI's move to cut the rates is in line with our estimate. Weak economic conditions as reflected in IIP and weak auto sales number continue with money market tightness and consumption slowdown.**
- ❑ Although the bank credit towards the large industries has witnessed upside, the credit flow to the micro, small and medium enterprise has been muted.
- ❑ To boost the liquidity situation in the market the RBI has also allowed banks to accommodate 2% of SLR (Statutory Liquidity ratio) to its LCR (Liquidity Coverage Ratio) calculations thus providing them more lending opportunities.
- ❑ In a move to boost the FPI investments into the debt market the RBI also removed the provision which restricted FPI's to have an exposure higher than 20% of its corporate bond portfolio in a single corporate.
- ❑ The inflation and growth projections both have been marginally revised downwards for a second term in a row.
- ❑ RBI believes the Inflation to be revised down to 2.4% in Q4 of 2018-19 and the inflation for H1 and H2 of 2019-20 to be 2.9-3.0% and 3.5-3.8% respectively.
- ❑ Key risks to the inflation outlook remain to be high with a possibility of El Nino in 2019 which may lead to abrupt reversal of benign food prices. The uncertainty regarding the crude prices also remains to be vital given cuts from OPEC.
- ❑ The RBI's business assessment index signals improvement in the business in the 3rd quarter of 2019-20 to 75.9% from 74.8% in 2nd quarter. Apart from this the high frequency indicators suggest moderation in sale of commercial vehicles and growth in business of both domestic and international air traffic.
- ❑ **The recent Fed decisions to hold the interest rate steady and the slowing global economic growth has also been favorable for a rate cut.**
- ❑ Given the budget outcome in July and uncertainty relating to rainfall the MPC may hold rates in the June meeting.
- ❑ **We expect further 25 bps cut in August policy once RBI will have further clarity on fiscal deficit, oil price trajectory and monsoon.**

Exhibit: Monetary rates



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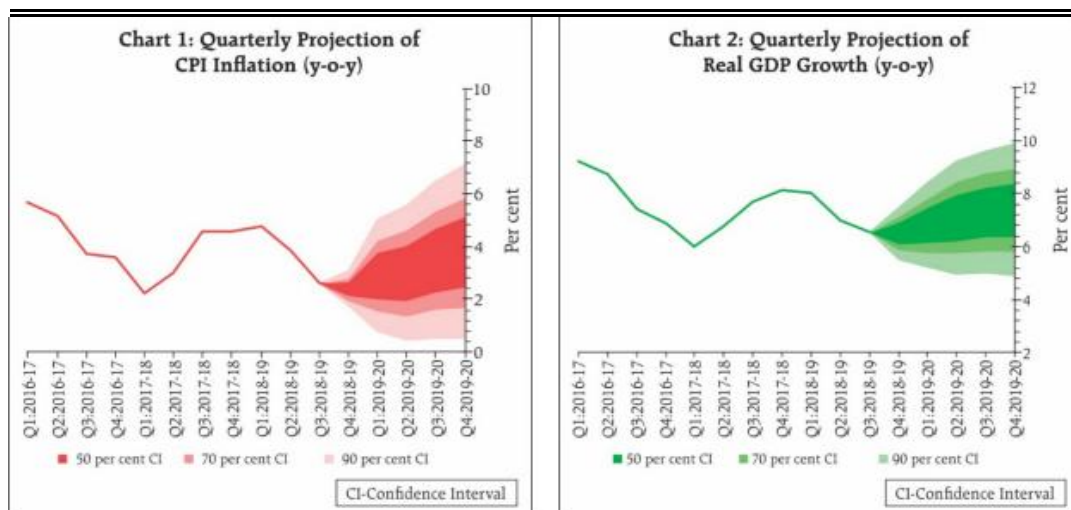
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Exhibit: Inflation and GDP outlook

The inflation projection has marginally reduced for the coming quarters along with the GDP projections



| Date | Rate Action | Inflation outlook | | | Growth outlook | | |
|-------------------|-----------------|-------------------|--------|---------|----------------|--------|---------|
| | | tone | year | rate | Bullish | FY18 | 7.40% |
| 6th April 2017 | No action | Hawkish | | | Cautious | FY18 | 7.30% |
| 7th June 2017 | No action | Dovish | H1 18 | 2-3.5 | Cautious | | |
| | | | H2 18 | 3.5-4.5 | | | |
| 2nd August 2017 | Rate cut 25bps | Hawkish | H2 18 | 4-4.5 | Cautious | FY18 | 7.30% |
| 4th October 2017 | No action | Hawkish | H2 18 | 4.2-4.6 | Cautious | FY18 | 6.70% |
| 6th December 2017 | No action | Hawkish | H2 18 | 4.3-4.7 | Cautious | FY18 | 6.60% |
| 7th February 2018 | No action | Hawkish | H2 18 | 5.1 | Cautious | FY18 | 7.40% |
| | | | H1FY19 | 5.1-5.6 | | FY19 | 7.40% |
| | | | H2FY19 | 4.5-4.6 | | H118 | 7.40% |
| 5th April 2018 | No action | Dovish | H2 18 | 4.5 | Bullish | FY19 | 7.30% |
| | | | H1FY19 | 4.7-5.1 | | H1 | 7.30% |
| | | | H2FY19 | 4.4 | | H2 | 7.40% |
| 6th June 2018 | Rate hike 25bps | Hawkish | H1FY19 | 4.8-4.9 | Neutral | FY19 | 7.50% |
| | | | H2FY19 | 4.7 | | H1 | 7.4% |
| 1st August 2018 | Rate hike 25bps | Hawkish | H1FY19 | 4.6 | Neutral | FY19 | 7.40% |
| | | | H2FY19 | 4.8 | | H2 | 7.30% |
| | | | Q1FY20 | 5.0 | | Q1FY20 | 7.50% |
| 5th October 2018 | No action | Hawkish | H1FY19 | 4.0 | Bullish | Q1FY20 | 7.40% |
| | | | H2FY19 | 3.5-4.5 | | FY20 | 7.40% |
| | | | Q1FY20 | 4.8 | | | |
| 5th December 2018 | No action | Hawkish | H2FY19 | 2.7-3.2 | Neutral | FY19 | 7.40% |
| | | | H1FY20 | 3.8-4.2 | | H1FY20 | 7.50% |
| 7th February 2019 | Rate cut 25 bps | Dovish | Q4FY19 | 2.8 | Neutral | FY20 | 7.40% |
| | | | H1FY20 | 3.2-3.4 | | H1FY20 | 7.2-7.4 |
| | | | Q320 | 3.9 | | Q3FY19 | 7.50% |
| 4th April 2019 | Rate cut 25 bps | Dovish | Q4FY19 | 2.4 | Neutral | FY20 | 7.20% |
| | | | H1FY20 | 2.9-3.0 | | H1FY20 | 6.8-7.1 |
| | | | H2FY20 | 3.5-3.8 | | H2FY20 | 7.3-7.4 |

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