

RBI maintains Status-Quo with accomodative stance

Key Highlights

- **Monetary Policy Committee in its 5th bi-monthly policy decided to pause the easing interest cycle after 5 consecutive rate cuts since February'19 and keep the repo rates unchanged at 5.15%.** Consequently, the reverse repo and marginal standing facility stands unchanged at 4.90% and 5.40% respectively.
- This marks a pause in the falling interest rate cycle for the first time in the fiscal year on elevated inflationary concerns and poor rate cut transmission in the economy.
- **High frequency indicators such as tractor, motorcycle sales (rural indicators) continued to taper but at a slower pace while passenger vehicle sales (urban indicators) showed a marginal growth on the back of festival period and promotional sales by automobile companies. The service sector PMI, however, showed expansion from 49.2 in October to 52.7 in November.**
- The longer-term growth projections have been marginally revised downwards for a fifth term in a row. whereas the inflation projection has been drastically upscaled.
- The inflation has been on the higher end due to substantial rise in the food inflation to a 39 month high in November. The cost-push of fodder, decline in production and sowing area and prolonged monsoon season has put upward pressure on many food commodities.
- The RBI's business assessment index signals deceleration in the capacity utilisation to 68.9% in Q2 2019-20 from 73.6 in Q1 2019-20. The growth in service sector moderated, mainly weighed down by trade, hotel, transport, communication and construction activity.
- The MPC also noted the FY20 GDP forecast downward from 6.1% in October 2019 to 5.0%. The GDP has been revised with downside risks of delay in the revival of domestic demand, the slowdown in global economic activity and geopolitical tensions.
- **The RBI has stuck to their idea of addressing headline inflation first without looking at core inflation. The Governor has also reiterated that they have taken a temporary pause and any will wait for the budget to pan out and see what economic measures are taken.**
- The consensus of all the six members on the decision shows that all of them are going by the rule book and not factoring in any other issue.

Rates Change	↔
Growth Outlook	↓
Long term Inflation outlook	↑

Monetary Rates	Oct-19	Dec-19
Repo Rate	5.15	5.15
Reverse Repo	4.90	4.90
MSF	5.40	5.40

RESEARCH ANALYST

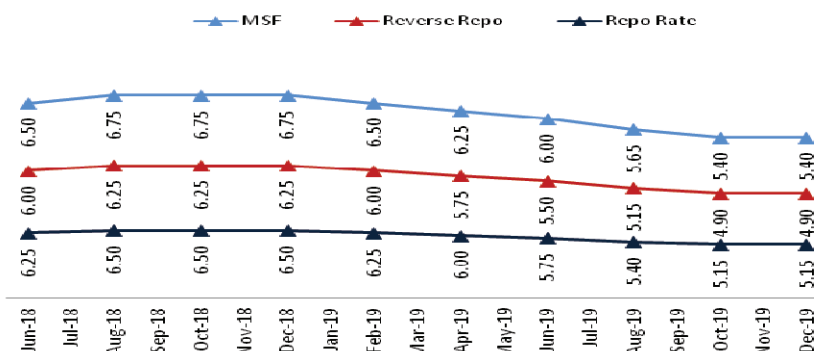
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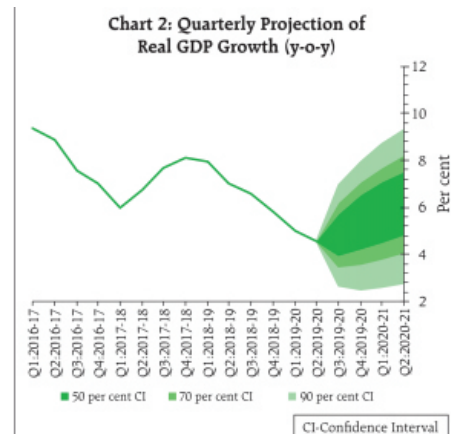
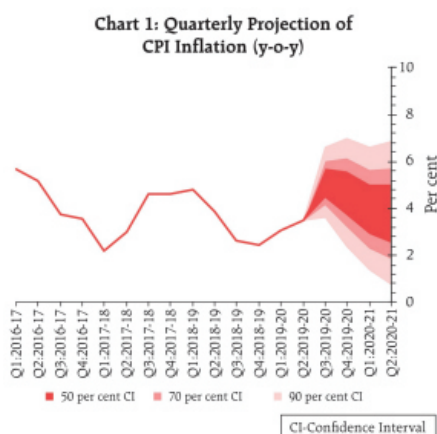
Exhibit: Monetary rates



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Exhibit: Inflation and GDP outlook

The longer term Growth projections have been reduced.



DATE	RATE ACTION	INFLATION OUTLOOK			GROWTH OUTLOOK		
		STONE	YEAR	RATE	BULLISH	FY18	7.40%
5th Apr 2018	No action	Dovish	H2 18	4.5	Bullish	FY19	7.40%
			H1FY19	4.7-5.1		H1	7.30%
			H2FY19	4.4		H2	7.30%
6th Jun 2018	Rate hike 25bps	Hawkish	H1FY19	4.8-4.9	Neutral	FY19	7.40%
			H2FY19	4.7		H1	7.50%
1st Aug 2018	Rate hike 25bps	Hawkish	H1FY19	4.6	Neutral	FY19	7.4%
			H2FY19	4.8		H2	7.40%
			Q1FY20	5.0		Q1FY20	7.30%
5th Oct 2018	No action	Hawkish	H1FY19	4.0	Bullish	Q1FY20	7.50%
			H2FY19	3.5-4.5		FY20	7.40%
			Q1FY20	4.8			7.40%
5th Dec 2018	No action	Hawkish	H2FY19	2.7-3.2	Neutral	FY19	7.40%
			H1FY20	3.8-4.2		H1FY20	7.50%
7th Feb 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 Apr 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
6th Jun 2019	Rate cut 25 bps	Dovish	H1FY20	3.0-3.1	Neutral	FY20	7.00%
			H2FY20	3.4-3.7		H1FY20	6.4-6.7
						H2FY20	7.2-7.5
7th Aug 2019	Rate cut 25 bps	Dovish	Q2FY20	3.1	Cautious	FY20	6.90%
			H2FY20	3.5-3.7		H1FY20	5.8-6.6
						H2FY20	7.3-7.5
5th Dec 2019	No action	Dovish	H2FY20	5.1-4.7	Cautious	FY20	5.00%
			H1FY21	4.0-3.8		H2FY20	4.9-5.5
						H1FY21	5.9-6.3

The GDP growth outlook has been revised downwards due to weak domestic activity

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