

## RBI maintains Status-Quo with the evolving growth-inflation dynamics

### Key Highlights

- **Monetary Policy Committee in its 6th bi-monthly policy decided to continue the status quo with an accommodative stance to revive growth in the economy while ensuring inflation remains within the target zone. The Repo Rate Stands at 5.15%. Consequently, the reverse repo and marginal standing facility stands unchanged at 4.90% and 5.40% respectively.**
- Fiscal & Monetary space for growth are limited in this constricted economy, hence a push for improving credit growth in the country becomes vital.
- In a bid to improve credit the banks will be given relief on the CRR on incremental auto loans, housing loans and MSME Loans.
- **Several High Frequency Indicators have turned upwards in the recent period pointing to a sign of revival in the momentum. Rural Demand Indicators such as tractors saw a marginal growth of 2.4% after 10 months of contraction whereas motorcycle demand remained subdued. Urban indicators have shown mixed reactions from passenger vehicle sales and port turn around time. The PMI Manufacturing hit a 8 year high in Jan 2020, standing at 55.3%.**
- The longer-term growth projections have been marginally revised downwards for a sixth 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 mainly due to rise in input cost for a few products and shortfall in kharif production. The increase in customs for a few products in the budget will have a one time elevating effect on the inflation.
- The RBI's business assessment index signals deceleration in the capacity utilisation to 69.1% in Q2 2019-20 from 73.4 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, breakout of corona virus. GDP Growth for H1 2021 is projected at 5.5-6.0 from 5.9-6.3.
- **The RBI has stuck to their idea of addressing headline inflation first without looking at core inflation. The Governor has said that further measures will be taken to improve growth and control inflation as and when needed.**
- 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	Dec-19	Feb-20
Repo Rate	5.15	5.15
Reverse Repo	4.90	4.90
MSF	5.40	5.40

### RESEARCH ANALYST

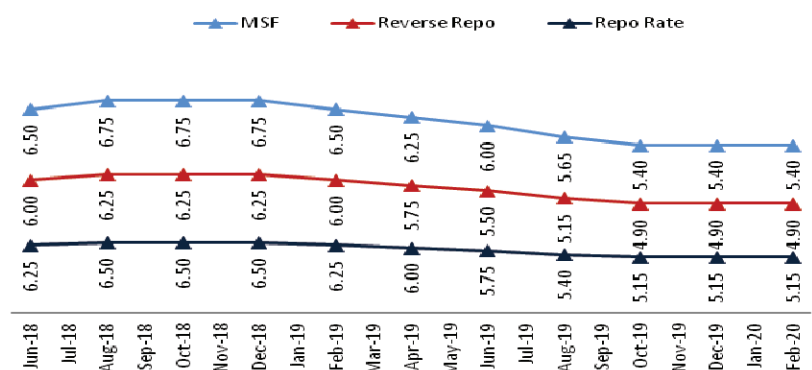
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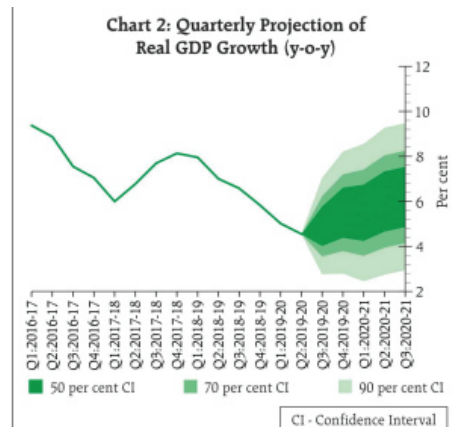
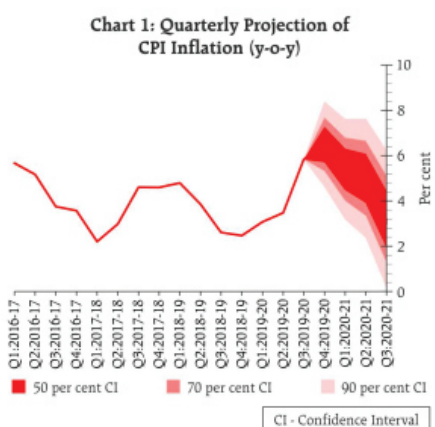
### Exhibit: Monetary rates



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## Exhibit: Inflation and GDP outlook

The longer term Growth projections have been reduced.



		INFLATION OUTLOOK			GROWTH OUTLOOK		
DATE	RATE ACTION	STONE	YEAR	RATE	BULLISH	FY18	7.40%
5th Apr 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 Jun 2018	Rate hike 25bps	Hawkish	H1FY19	4.8-4.9	Neutral	FY19	7.50%
			H2FY19	4.7		H1	7.4%
1st Aug 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 Oct 2018	No action	Hawkish	H1FY19	4.0	Bullish	Q1FY20	7.40%
			H2FY19	3.5-4.5		FY20	7.40%
			Q1FY20	4.8			
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
7th Feb 2020	No action	Dovish	H1FY21	5.4-5.0	Neutral	FY20	5.00%
			Q3FY21	3.2		H1FY21	5.9-6.3

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

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