

## RBI Policy- December 2019 - Key Takeaways

### RBI Monetary Policy

<b>Repo Rate</b>	<b>Maintains</b>
Now at 5.15%	
<b>Reverse Repo Rate</b>	<b>Unchanged</b>
Now at 4.90%	
<b>Policy Stance</b>	<b>Unchanged</b>
Accommodative	

### RBI on Growth, Inflation

<b>FY20 REAL GDP TGT</b>	<b>Lowered</b>
At 5% vs. 6.1%	
<b>Oct-Mar CPI TGT</b>	<b>Raised</b>
Now at 4.7-5.1%	
<b>Apr-Sep CPI TGT</b>	<b>Raised</b>
Now at 3.8-4%	

- Rate Cut** – RBI unexpectedly maintains repo rate to 5.15% in its fifth bimonthly policy review after cutting the repo rate for 5 consecutive times making it 135 bps in 2019. MPC unanimously voted for status quo on repo rate.
- Further Rate Cut** – The MPC recognises that there is monetary policy space for future action. However, given the evolving growth-inflation dynamics, the MPC felt it appropriate to take a pause at this juncture. Accordingly, the MPC decided to keep the policy repo rate unchanged and continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
- GDP estimates cut sharply** – RBI cut its GDP growth estimate for FY20 to 5% vs. 6.1% earlier. Various high frequency indicators suggest that the demand conditions have remained weak. The business expectations index of the Reserve Bank's industrial outlook survey indicates a marginal pickup in business sentiments in Q4. Slowdown in GDP growth was cushioned by the government expenditure.
- Recent Measures** – The MPC notes that economic activity has weakened further and the output gap remains negative. However, several measures already initiated by the Government and the monetary easing undertaken by the Reserve Bank since February 2019 are gradually expected to further feed into the real economy.  
  
Data on corporate finance and on projects sanctioned by banks and financial institutions suggest some early signs of recovery in investment activity, though its sustainability needs to be watched closely. Non-Oil growth export growth back in positive territory in October'2019.
- Global Economy** – Global economic activity has remained subdued, though some signs of resilience are becoming visible. Growth has shown signs of picking up in some advanced economies & emerging market economies. Global markets have remained buoyant on hopes of trade deal resolution.
- Transmission of Rate Cuts** – Monetary transmission has been full and reasonably swift across various money market segments and the private corporate bond market. Credit market transmission remains delayed but is picking up. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 44 basis points, while the WALR on outstanding rupee loans increased by 2 basis points during this period. However, transmission is expected to improve going forward as (i) the share of base rate loans, interest rates on which have remained sticky, declines; and (ii) MCLR based floating rate loans, which typically have annual resets, become due for renewal.
- Crude** – Crude oil prices have moved in a narrow range in both directions since the last meeting of the MPC, reflecting changing sentiments relating to progress in US-China trade talks. Crude oil prices are expected to remain range bound, barring any supply disruptions due to geo-political tensions
- Liquidity** – Overall liquidity in the system remained in surplus in October and November 2019 despite an expansion of currency in circulation due to festival demand.
- Inflation revised marginally up** – The actual inflation outcome for Q2 evolved broadly in line with projections – averaging 3.5 per cent. The inflation print for October, however, was much higher than expected.

The CPI inflation projection is revised upwards to 5.1-4.7 per cent for H2:2019-20 and 4.0-3.8 per cent for H1:2020-21, with risks broadly balanced.

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