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RBI Governor Raghuram Rajan left the key interest rate unchanged in its monetary policy review following rise in retail inflation to 4-month high and likelihood of capital outflows on a possible US Fed rate hike later this month.

By: [FE Online](#) | Updated: December 1, 2015 5:02 PM



RBI monetary policy review: Raghuram Rajan left the key interest rate unchanged following rise in retail inflation to 4-month high and likelihood of capital outflows on a possible US Fed rate hike later this month.. (PTI)

Reserve Bank of India’s fifth bi-monthly monetary policy review on Tuesday was in line with market expectations. [RBI Governor Raghuram Rajan](#) left the key interest rate unchanged following rise in retail inflation to 4-month high and likelihood of capital outflows on a possible US Fed rate hike later this month.

Here are five key takeaways from the Reserve Bank of India’s monetary policy review

1) Benchmark Policy Rates: RBI Governor Raghuram Rajan kept the key policy rate unchanged but affirmed the central bank’s commitment to ease it as and when room is available. The repo rate at which the central bank lends to the system will continue at

6.75 per cent. The cash reserve ratio (CRR) or the amount of deposits banks park with RBI has also been unchanged at 4 per cent. The status quo was widely expected.

2) Base rate: The RBI monetary policy statement indicates that the RBI is soon expected to finalise the methodology for determining the base rate based on marginal cost of funds and the government is also examining linking small saving interest rates to market interest rates.

Jimeet Modi, CEO, SAMCO Securities, said, “One positive commentary was the urgency to link the final base rate to the marginal cost of funds. Effective implementation of the same shall result in faster transmission of rate cuts to the end borrowers.”

Deepak Joshi, president and chief business officer, Religare Housing Development Finance Corporation, said, “Methodology for determining the base rate based on the marginal cost of funds and linking small savings interest rates to market interest rates, which all banks will have to follow is a big welcome as it further help transmission of policy rates into lending rates.”

3) Transmission of policy rate: It is important to note that the central bank’s observation on the transmission of the policy rate cuts announced till date. As mentioned, just about half of the policy repo rate reduction of 125 basis points has been transmitted by the banks till now. A Didar Singh, secretary general, FICCI, said, “We would like banks to pass on the full benefits in the form of lower lending rates for both consumers and investors. This is important for reviving up overall demand in the economy, which is still far from being robust. Of particular concern is the demand in the rural areas that has weakened on account of deficient monsoons.”

4) Inflation: RBI, which is set to achieve its target of getting inflation down at 6 per cent by January and is aiming to reduce the number further to 5 per cent by March 2017, will monitor developments on the commodity prices, including food and oil and external developments in its future policy formulations, Rajan said.

5) GDP Growth: The RBI Governor noted that second-quarter GDP numbers indicated early signs of recovery, he chose to stick to the earlier projection of 7.4 per cent for the fiscal with a marginal downward bias.

Overall, “Today’s policy action should be neutral for both equity and bond markets especially with key global events like US Fed rate decision ahead of us. Markets would also be watching out for RBI’s methodology for determining base rate which could have implications on profitability of lenders and borrowers going ahead,” said Jyoti Vaswani, chief investment officer, Future Generali Life Insurance.

The sixth bi-monthly monetary policy will be on February 2.

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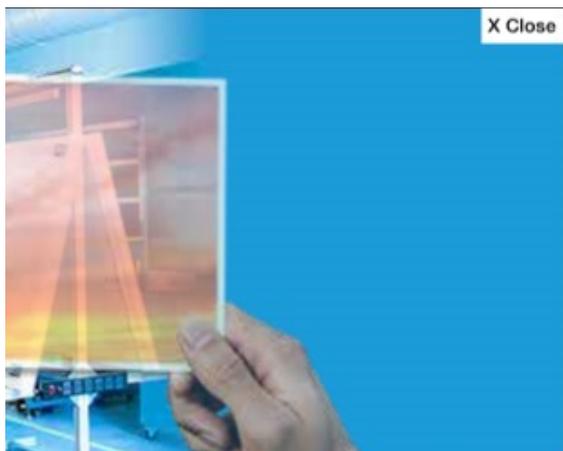
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