

RBI holds rates steady

Our Bureau



Mumbai, Dec 1:

After frontloading a 50 basis points cut in the policy repo rate in late September, the Reserve Bank of India chose to keep it steady at 6.75 per cent in its fifth bi-monthly policy review on Tuesday.

The central bank kept the rate unchanged, a stance which was widely expected by various stakeholders including economists, bankers and fixed income market players, in the backdrop of the impending hike by the US Fed in its policy signalling rate.

Further, with the consumer price index based inflation rising for the third month and hitting 5 per cent in October, the RBI may have chosen to err on the side of caution.

Since the beginning of calendar year 2015, the RBI has slashed the repo rate (the interest rate at which the central bank provides liquidity to banks to help them overcome short-term liquidity mismatches) cumulatively by 125 basis points.

The series of rate cuts by the RBI since January seem to have had the desired impact, with GDP growth rising to 7.4 per cent in the second quarter (July-September) against 7 per cent in the previous quarter. This apparently has allowed the central bank to take a breather.

The Sensex was trading 74 points or 0.28 per cent higher at 26,219.81 while the NSE Nifty was up 25.30 points or 0.32 per cent at 7,960.55 at 11.05 am. Bank Nifty was trading up over 0.5 per cent.

Policy stance and lending rate cuts

The Reserve Bank said it will use the space for further accommodation, when available, while keeping the economy anchored to the projected disinflation path that should take inflation down to 5 per cent by March 2017.

The RBI Governor said, "we are still in an accommodative stance. There are upside and downside risks to inflation. Downside risks are related to oil.. there is uncertainty about what the Federal Reserve will do. But after some volatility we expect the domestic market to stabilise."

The RBI will follow developments on commodity prices, especially food and oil, even while tracking inflationary expectations and external developments.

The implementation of the Pay Commission proposals, and its effect on wages and rents, will also be a factor in the Reserve Bank's future deliberations, though its direct effect on aggregate demand is likely to be offset by appropriate budgetary tightening as the Government stays on the fiscal consolidation path.

In the meantime, since the rate reduction cycle that commenced in January, the RBI said less than half of the cumulative policy repo rate reduction of 125 bps has been transmitted by banks. The median base lending rate has declined only by 60 bps.

The Reserve Bank will shortly finalise the methodology for determining the base rate based on the marginal cost of funds, which all banks will move to. The Government is examining linking small savings interest rates to market interest rates. These moves should further help transmission of policy rates into lending rates. In addition, the on-going clean-up of bank balance sheets will help create room for fresh lending.

Growth and inflation

The growth projection for 2015-16 has been kept unchanged at 7.4 per cent with a mild downside bias.

The inflation is expected to broadly follow the path set out in the September review with risks slightly to the downside. In the bi-monthly monetary policy statement of September, the Reserve Bank had assessed that the inflation target for January 2016 at 6 per cent was within reach.



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Quotes on RBI policy

Chandra Shekhar Ghosh, MD and CEO, Bandhan Bank

"Indeed, it (RBI) has expressed its concerns about the slow transmission of the monetary policy – against a 125 basis points policy rate cut since January, banks have cut their base rate by about 60 basis points – but things will change. Once the small savings rates are pared, banks will be in a position to cut their deposits rates and bring down the cost of money.

Also, as most banks are providing funds for bad assets, their balance sheets are being cleaned. This will pave the path for fresh lendings. As we go along, the credit offtake will pick up.

Considering the fact that the latest pay commission recommendations will have an impact on the fiscal deficit and the government will have to find ways to contain it and a US Fed hike is round the corner, this policy is par for the course".

VS Parthasarathy Group Chief Financial Officer, Group CIO and President (Group Finance and M&A), Mahindra and Mahindra Group

"Today's absence of rate action was a forgone conclusion. This time around the focus shifted to base rate restructuring and the transmission of lower rates to the wider economy. In addition, the retention of growth and inflation targets, and remaining accommodative on evolving data points demonstrates an outlook of stability which is welcome. It is also good that the Fed actions do not overtly worry the RBI, signalling that we can ride out any currency volatility. The Governor's concerns on an uneven recovery and moderate, if not weak, rural demand would be readily shared by the industry, which also hopes for early recovery to convert into sustained growth."

Radhika Rao, Chief Economist, DBS Bank

"The RBI stuck to script and delivered a no-change on rates on Tuesday. Pipeline inflation risks were highlighted as a reason for the central bank to remain vigilant on further monetary easing, but added that policy outlook was still accommodative. External cross-currents from the ECB exploring additional QE this week and impending US Fed rate hikes will also require policymakers to maintain a cautious stance. For the currency in particular, strong rupee gains on real basis requires the central bank to act to limit volatility in the event of external risk events. In all, the central bank is likely to remain on the path of least resistance by keeping rates on hold this fiscal year, while factoring in February's budget and deciphering the impact of the upcoming public sector wages on fiscal books and on inflationary expectations."

Abheek Barua, Chief Economist, HDFC Bank.

After delivering an aggressive 50 bps repo rate cut in the previous policy meet in September, the Reserve Bank of India (RBI) maintained status quo this time around as it waits for more clarity on the medium term inflation trajectory. Although the policy statement was neutral to marginally dovish, the central bank did flag concerns about the possible inflationary impact of the pay commission recommendations. We believe that the RBI is likely to maintain status quo until it gets further clarity on how the government plans to (a) accommodate the seventh pay commission's recommendations and (b) provide a credible fiscal consolidation path in which it does not cut back on its capital expenditure plans.

Amit Saxena, CEO and Whole time Director, Karvy Financial Services

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We had seen reduction in rates earlier this year, a cut of 50 basis points in the last policy announced by RBI and as expected, there has been no further reduction in the rate. With CPI increasing to a 4 month high, US Fed rate decision expected to create a knee-jerk reaction in the Indian markets, and the impact of the pay commission report, eyes are set on the fiscal consolidation measures the Government would announce in the next budget. The next rate cut could be expected post that. As far as NBFCs are concerned, we are still waiting for a concrete decision on SARFAESI that was promised to the sector in the last budget proposal.

Anis Chakravarty, Senior Director and Lead Economist, Deloitte India

"The Reserve Bank brought out a policy in line with expectations and kept rates constant. However, the RBI brought out a whole list of factors to watch out for that would condition its stance going forward. The central bank clearly spelled out that it is closely watching rising inflation in certain categories of food and services. It also showed confidence that the government will make room for the additional expenditure that will be done on account of the pay commission and stick to the fiscal roadmap. Overall, we believe that this was a very balanced policy wherein the governor showed comfort with the level of the domestic currency while keeping enough room with himself for maneuverability in terms of rates. It is important to note that the RBI is still in accommodative mode and has clearly stated that it is looking for more space to ease policy. That said, we are unlikely to see any rate action by the RBI in the near term and further easing may only happen post the budget."

Harihar Krishnamoorthy, Treasurer with FirstRand Bank

"The policy itself notes that for three successive months we have seen CPI climbing and probably now headed towards the RBI estimate of 6% in the Q1 of 2016. This reading, which has been partly the result of the wearing off of the base effect and also a surge in food prices have left little room for any further policy rate cuts. Also, with the Federal Reserve poised to hike policy rates in the US by 25 basis points, the dollar index has breached 100 levels and all EM currencies have been taking a pounding. The rupee has been no exception to this move.

"Furthermore, the FII investments in the market have turned negative in November with about ₹ 10,000 crores of net exits. These developments have also reduced the space to effect policy rate cuts, in a market where short term liquidity has been in a deficit mode anyway. While the markets are expecting a pause till the budget at least, the process of transmission would of course continue with banks passing on reducing cost of deposits to borrowers.

"However, it is interesting to note that the forecast for the next fiscal end is also at 5% which means that the vigil on inflation would continue. Any space for further cuts would be determined by how GDP growth pans out, how the extra expenditure mandated by the Pay Commission recommendations get accommodated in fiscal numbers, how the GST bill adds to costs of goods and government revenues and continued softness in commodity prices."

Umesh Revankar, MD, Shriram Transport Finance

"As expected, RBI continues to keep the rates unchanged mainly for the front loading cuts to get transmitted in the system before going for any more rate cuts. The status quo stance is also a protective measure to achieve the target inflation.

With GDP growth of 7.4% in the second quarter of FY16 clearly signals the economy has started to look up. For us, with the commercial vehicle sales witnessing acceleration year-on-year and the recent infra policy initiatives, we are buoyant on the overall industry.

As the economy is in recovery mode, investment demand and the need for credit will pick up; we hope RBI will reduce rates atleast 25 bps in the forthcoming policy."

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