

# Business Standard

## RBI MPC keeps repo rate unchanged at 6%, tells banks to shape up

Says recap will be front-loaded for healthy banks; others have to prove efficiency

Anup Roy & Abhijit Lele | Mumbai December 07, 2017 Last Updated at 01:34 IST



*Deputy RBI governor B P Kanungo, Deputy RBI governor N S Vishwanathan, RBI Governor Urjit Patel and Deputy RBI governor Viral V Acharya during RBI monetary policy meeting. Photo: Kamlesh Pednekar*

The Reserve Bank of India (RBI) kept its policy rate unchanged and stance neutral but its governor, Urjit Patel, set stiff conditions for ailing state-owned banks to receive fresh capital from the government.

Following the central bank's fifth bi-monthly monetary policy review, the repo rate, at which the RBI lends to banks, remained at 6 per cent.

All 10 economists and bond market dealers polled by *Business Standard* had predicted a pause.

**ALSO READ: [Full text: RBI keeps repo rate unchanged at 6%, growth estimate at 6.7%](#)**

Ravindra Dholakia, an external member of the monetary policy committee, voted for a 25 basis point cut in interest rates. But the other five committee members, including Patel, voted for a pause.

The policy statement said banks could widen previous interest rate cuts to outstanding loans, but bankers remained non-committal about this.



## ALL IN A DAY'S WORK

Some of the important steps taken by the RBI on Wednesday

### DEBIT CARD TRANSACTION CHARGES

Different for small and large traders, in a bid to promote digital payments

### REPO RATE

Holds at **6%**

### INFLATION ESTIMATE

Hikes to **4.3-4.7%** from 4.2-4.6%

### FY18 GVA PROJECTION

Keeps at **6.7%**

### STANCE FOR MONETARY POLICY

Neutral

### HEADLINE INFLATION

Committed to keeping it close to **4%**

Among other important policy measures, the RBI said it would rationalise merchant discount rates for a wider adoption of digital payments.

**ALSO READ: [We are already on the uptick in terms of credit growth: RBI](#)**

One of the major announcements during the policy press conference was that the government's planned equity infusion into public sector banks was meant to make them healthy and not just to meet capital adequacy norms.

**ALSO READ: [Liquidity is and will remain comfortable: RBI](#)**

"This will be a reform and recap package and not just a recap package. This money is to be used to strengthen public sector banks' balance sheets so that we do not sow the seeds of the next boom and bust cycle of lending," Patel said in his opening remarks at the conference.

Recapitalisation will be front-loaded for prudent banks, which can use the fresh capital to lend apart from providing for asset losses.

Other banks will receive capital based on their progress towards reform in a time-bound manner.

"Governance reform for all public sector banks will feature as part of the overall plan," Patel said.

The Rs 2.11-lakh crore recapitalisation outlay announced by the government includes Rs 1.35 lakh crore to be raised through bonds. Budgetary allocations and market borrowings will contribute another Rs 76,000 crore. The government has infused Rs 58,848 crore in the last three-and-a-half years into public sector banks.

**ALSO READ: [Markets slip as RBI holds rates](#)**

In its policy statement, the RBI revised its inflation forecast by 10 basis points for the second half of the financial year. It now expects retail inflation at 4.3-4.7 per cent in the third and fourth quarters. This includes a central government house rent allowance-induced addition of up to 35 basis points, a figure the RBI disseminated for the first time.

However, the policy statement said, "Inflation expectations of households surveyed by the Reserve Bank have already firmed up and any increase in food and fuel prices may further harden these expectations." Patel said there was a risk that companies could pass on rising input costs to customers, pushing up prices.

Fiscal slippages and monetary tightening by major global central banks could also push up inflation at home, the statement added. But a seasonal moderation in vegetable prices and the recent downward revision in the goods

and services tax might mitigate some of the pressure on inflation, the RBI said.

**ALSO READ: [Recapitalisation plan: RBI to determine which bank will get how much money](#)**

The RBI said the economy could grow at 6.7 per cent for the full year, maintaining its earlier forecast. In the third and fourth quarters, the GDP growth rates could be 7 per cent and 7.8 per cent, respectively, said Michael Patra RBI executive director and member of the monetary policy committee. Gross value added during the second quarter ending September was 6.3 per cent.

Large-scale mobilisation of resources from the capital market by companies and recent reforms in ease of doing business would help push economic growth, Patel said.

“It is expected that liquidity conditions will be marginally in surplus by the end of the fiscal year,” said RBI Deputy Governor Viral Acharya. The ‘neutrality’, or the point at which the system borrows on some day and parks excess funds on some, would be reached in the second half of 2018, Acharya said.



**“This will be a reform and recap package... This money is to be used to strengthen Public Sector Banks’ balance sheets”**

**Urjit Patel**, RBI Governor

*Urjit Patel, RBI Governor*

The policy statement said the stance remain neutral keeping in mind the output gap dynamics. The central bank would "watch the incoming data carefully," it said.

The RBI’s neutral stance was expected, considering the prevailing global uncertainties. “There is no guarantee that oil prices will stick at \$60. The benefit that we have reaped of lower food prices may or may not reverse. It is also not clear if the rupee will depreciate as a consequence of monetary tightening by the central banks of advanced economies,” said Indranil Pan, chief economist of IDFC Bank. Most economists, including Pan, do not expect a rate cut in the short term.