# Loans to become cheaper after RBI cuts interest rate to a decade low

PTI Mumbai | Updated on October 04, 2019 Published on October 04, 2019

0


## The repo rate cut aims to push consumption up during the ongoing festival season

Home, auto and other loans are set to become cheaper after the Reserve Bank of India (RBI) on Friday cut interest rates for a record fifth straight time to almost a decade low as it moved aggressively to revive economic growth languishing at six-year lows.

With all six members of the Monetary Policy Committee (MPC) voting in favour of a rate cut and for retaining the accommodative stance, **the benchmark repurchase rate was cut by 25 basis points to 5.15 per cent**. The previous lowest repo rate of 5 per cent was recorded in March 2010.

Following the rate cut, the reverse repo rate was reduced to 4.9 per cent.

**The RBI revised downwards its estimate for GDP growth in the current fiscal to 6.1 per cent from 6.9 per cent it had previously estimated after lower-than-expected 5 per cent growth rate in April-June and no substantial uptick in the following quarter.**

The repo rate cut is aimed at pushing consumption up during the ongoing festival season by reducing borrowing costs for home and auto loans, which are now directly linked to this benchmark.

RBI Governor Shaktikanta Das said as long as the growth momentum remains as it is now and growth revives, the MPC will continue with an accommodative stance while ensuring inflation remains within the target.

“RBI will continue accommodative stance as long as it is necessary and growth revives,” he said.

In the four previous rate cuts since February, the RBI had cut interest rates by 110 basis points whose transmission to borrowers in form of lower lending rate has “remained staggered and incomplete”, the central bank said in a statement.

As against the cumulative policy repo rate reduction of 110 bps during February-August 2019, the weighted average lending rate (WALR) on fresh rupee loans of commercial banks declined by 29 bps. However, the WALR on outstanding rupee loans increased by 7 bps during the same period.

Central banks around the world are loosening monetary policy to offset a global slowdown, worsened by US-China trade tensions.

Also read: **RBI raises lending capacities of MFIs**

The rate cut by the RBI follows a series of fiscal steps taken by the government over the last six weeks to spur growth. This includes the steepest ever cut in tax paid by companies, cost the exchequer Rs 1.45 lakh crore.

## ‘Banking system remains sound and stable’

Asked if the corporate rate cut would impact fiscal deficit target of 3.3 per cent of the GDP, Das said the Government has stated that it will maintain fiscal deficit target.

He said the impact of the 135 bps rate cut will take time to filter in.

"While the recent measures announced by the Government are likely to help strengthen private consumption and spur private investment activity, the continuing slowdown warrants intensified efforts to restore the growth momentum," the RBI said.

On the mounting problems in the banking system that potentially could hurt lending, Das reiterated that the banking system "remains sound and stable" and there is no reason for "unnecessary panic".

The RBI raised its near-term inflation forecast slightly to 3.4 per cent for the second quarter of the fiscal started in April, while projecting it would stay below its medium-term target of 4 per cent.

All six MPC members voted in favour of a rate cut and for retaining the accommodative stance. While five members voted for a 25 bps cut, Ravindra Dholakia voting for a 0.40 per cent reduction.

On inflation, which is the key mandate of the RBI with the target of 4 per cent in the medium term, the MPC moved up the September quarter expectations "slightly upwards" to 3.6 per cent, but retained its projection for the second half of this fiscal at 3.5-3.7 per cent.

The half-yearly Monetary Policy Report presented along with the policy review suggested that inflation will remain within the target levels till the early part of FY21.

## 'Risks on the 6.1 per cent GDP growth estimate are evenly balanced'

On reviving growth, the MPC welcomed the recent moves by the Government as the ones in the right direction. But, the resolution did not have any reference to the fiscal deficit or fiscal management, which is generally deemed to have an inflationary impact.

“Risks on the 6.1 per cent GDP growth estimate are evenly balanced,” it said.

On the farm sector, the MPC resolution said, “prospects of agriculture have brightened considerably, positioning it favourably for regenerating employment and income, and the revival of domestic demand“.

Given the concerns on growth and inflation remaining within the target levels, a majority of analysts were expecting the RBI to cut rates at the review.

Despite the surge in the onion prices, the headline inflation for August had come at 3.8 per cent leading to expectations of a rate cut. Das had also recently said the prospect of benign inflation during the remainder of FY20 gives it the room to cut rates.

As the RBI has compelled banks to align all their retail loans to external benchmarks, and a majority of lenders have adopted the repo rate as the benchmark, the cut will likely bring cheer to borrowers.

On the regulation and supervision front, the RBI decided to increase the household limits for micro-lenders’ borrowers, and also raise the cap to Rs 1.25 lakh per eligible borrower from the previous Rs 1 lakh.

Published on October 04, 2019

**RBI and other central banks**

**0**

COMMENTS