RBI slashes growth forecast, leaves key rate unchanged

Cites Inflation, Lag In Passing On Cuts To Borrowers

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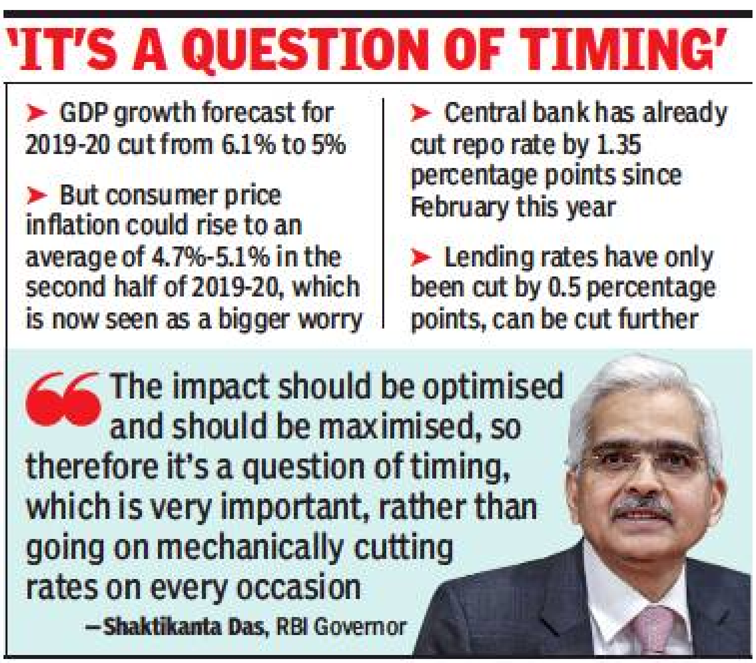
Mumbai:

The RBI's monetary policy committee (MPC) on Thursday slashed its GDP growth estimate but disappointed markets and borrowers by keeping its key policy rate unchanged after reducing it five consecutive times in 2019. It was widely expected that the central bank would reduce its repo rate—at which it lends to banks—by 25 basis points to a 10-year low of 4.9%.

RBI retained the repo rate at 5.15% even as it cut its GDP growth estimate for 2019-20 by 110 basis points to 5% from 6.1% forecast two months ago. Despite the lower growth , RBI said inflation would be higher than expected, in the range of 4.7% to 5.1%.

RBI governor Shaktikanta Das explained that previous rate cuts resulting in a cumulative reduction of 135 basis points are yet to be passed on to borrowers. "The MPC recognises there is monetary policy space for future action," the panel said. "However, given the evolving growth-inflation dynamics, it felt it appropriate to take a pause at this juncture."



Bankers don't see RBI move as negative

D as also indicated that the RBI was keeping its powder dry for a more opportune moment. "The impact should be optimised and maximised, so it's a question of timing, which is very important, rather than going on mechanically cutting rates on every occasion," he said in his post-policy press conference.

Although taken completely by surprise, most bankers do not see the RBI decision to pause as a negative. "RBI's unchanged rate signifies a waitand-watch stance to understand the market and the government's reaction to the rapidly unfolding market data. The bond and money markets are likely to be more stable until policy and fiscal measures from the government are announced," said Mrutyunjay

Mahapatra, MD & CEO, Syndicate Bank. “As deposit rates are moderating, the transmission of earlier cuts by banks is expected to continue,” he added.

By unanimously deciding to hold on to rates, the sixmember MPC seems to be sending a message that there is only so much that monetary policy can do and the ball is now in the Centre’s court. “The need at this juncture is to address impediments, which are holding back investments. In this context, there is also a need for greater flexibility in the adjustment in interest rates on small saving schemes,” the committee said in its monetary policy statement.

“Inflation trajectory was one key reason for the pause. As per RBI, they believe that due to food inflation, CPI inflation is likely to remain elevated in Q4 and inflation is likely to taper off only post that,” said Shanti Ekambaram, president, consumer banking, Kotak Mahindra Bank.

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