Rbi monetary policy 2019 pdf

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Reserve Bank of India (RBI) in its fifth Bi-monthly monetary policy meet of FY2019-20, decided to keep repo rate unchanged to 5.15% on 5th December 2019. Also, RBI decided to continue with the Accommodative stance of monetary policy and also lowered GDP growth projections to 5% from 6.1% for FY2019-20. Lets discuss the key highlights of monetary policy in detail. eBooks by Invest Yadnya RBI Monetary Policy Highlights Dec 2019 – Repo Rate Kept Unchanged On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its 5th Bi-monthly meeting on 5th December, 2019 decided to keep the policy repo rate unchanged at 5.15%.The MPC also decided to continue with the Accommodative stance of monetary policy as long as it is necessary for reviving growth.These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth. RBI Decided to Keep Repo Rate Unchanged to 5.15% in 5th Bi-monthly Monetary Policy Dec-19 1. RBI decided to keep Repo Rate unchanged at 5.15% On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its 5th Bi-monthly meeting on 5th December, 2019 decided to keep the policy repo rate unchanged at 5.15%.Consequently, the reverse repo rate remains unchanged at 4.90% and the Bank Rate at 5.40%.In 2019, the RBI has cut repo rate by 135 basis points so far to a nine-year low of 5.15%. Analysts were expecting another 25 basis points cut. However, Monetary Policy Committee surprised, shocked even, many observers of the Indian economy by announcing that it would not cut the repo rate as it announced its Dec-19 monetary policy review. 2. RBI to Continue with the Accomodative Stance RBI has decided to continue with the Accomodative stance of monetary policy as long as it is necessary to revive growth.It is prudent to remain accomodative as stated by MPC. In the second bi-monthly policy review of FY20 held in June 2019, MPC had changed the monetary policy stance from neutral to accomodative.A significant weakening of growth impulse, slowdown in investment activity and a continuous moderation in private consumption growth is a matter of concern, as noted by MPC.On account of the slowdown in the above mentioned macroeconomic indicators, RBI sees scope to accommodate growth by supporting efforts to boost demand and re-energize the private investment activity. 3. Revision in GDP Projections to 5% from 6.1% for FY2019-20 GDP growth for 2019-20 is revised downwards from 6.1% in the Dec policy to 5% on account of weakening of both domestic and external demand conditions.In the last MPC meet (Oct-19), GDP growth was revised to 5.3% in Q2: FY2019-20. However, the actual GDP growth for Q2: FY2019-20 slumped to 4.5%, the lowest in more than 6 years and it is significantly lower than projected number (5.3%). It is due to significantly lower than expected GDP number in September quarter ie. 4.5% from 5% in June quarter. Various high frequency indicators suggest that domestic and external demand conditions have remained weak. The business expectations index of the Reserve Bank's industrial outlook survey indicates a marginal pickup in Q4. GDP growth projections are in the range of 4.9-5.5% for H2: FY2019-20, with risks evenly balanced.While, GDP growth for H1: FY2020-21 is also revised downwards to 5.9-6.3%.The GDP projections for H2: FY2019-20 and H1: FY2020-21 are made on the following positive outlooks.The impact of monetary policy easing since February 2019 is gradually expected to feed into the real economy and boost demand.Several measures announced by the Government to boost growth :The above measures are expected to revive sentiment and spur domestic demand, especially private consumption in coming quarters. 4. Revision in CPI Inflation RBI has revised Consumer Price Index (CPI) inflation upwards :H2: FY2019-20 in the range 4.7-5.1%H1: FY2020-21 at 3.8-4%, with risks evenly balanced.Following are the key driving factors which are taken into consideration by MPC for the revision in CPI forecast :Rise in food inflation on account of upsurge in prices of vegetables and incipient price pressure in other food items like milk, pulses, sugar.Volatile Crude-oil prices due to Geo-political tensionsNear-term Price pressures due to volatile currency 5. Transmission Process The success of the accommodative policy would depend entirely on the transmission of the lower rates to the ultimate borrowers. Thus the key determining factor of expected favourable results of earlier 135 points repo rate cut by RBI is the effective cascading of the benefits of lower base rate by the banks. In simple words, when RBI cuts repo rate, banks should immediately cut the interest rates of the loans. Interest rates of home loans, vehicle loan or business loans should be come down hand-in-hand.RBI is focusing on quick transmission of lower interest rates to the borrowers, issuing loans from the banks. RBI has already made it mandatory for the banks to link the interest rates on loans to the repo rate. 6. RBI raised Exposure Limit of NBFC-P2P Platform & removed Escrow Account requirement On Peer to Peer (P2P) Lending Platform, RBI : Raised the aggregate exposure limit to Rs.50 Lakh from earlier Rs.10 Lakh Proposed to do away the current requirement of escrow account to be operated by bank promoter trustee for the transfer of funds across P2P platformConsequences of increase in aggregate exposure limit to Rs. 50 Lakh in P2P lending platform : The existing High Net Worth (HNI) investors on P2P platform can scale up their investmentsMore HNIs would look at peer-to-peer lending as an investment option, which is a very positive sign for the industry The increased limit will ease credit supply benefiting MSMEsDue to removal of escrow account requirement in P2P lending platform, it will provide more flexibility in operations You are here: Home » Finance » RBI Policy » News Business Standard Amid slowing GDP growth and rising inflation, the Reserve Bank of India (RBI) will unveil its last monetary policy for the current financial year on Thursday. TO READ THE FULL STORY, SUBSCRIBE NOW NOW AT JUST RS 249 A MONTH. What you get on Business Standard Premium? Unlock 30+ premium stories daily hand-picked by our editors, across devices on browser and app. Full access to our intuitive epaper - clip, save, share articles from any device; newspaper archives from 2006. Curated newsletters on markets, personal finance, policy & politics, start-ups, technology, and more. Pick your 5 favourite companies, get a daily email with all news updates on them. 26 years of website archives. Preferential invites to Business Standard events. 5 ARTICLE PACKPAY AS YOU GO * Terms 1. Lorem Ipsum is dummy Text 2. Lorem Ipsum is dummy Text Dear Reader, Business Standard has always strived hard to provide up-to-date information and commentary on developments that are of interest to you and have wider political and economic implications for the country and the world. 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Digital Editor Read our full coverage on RBI's monetary policy The monetary policy states the use of financial instruments under the control of the Reserve Bank of India to standardise magnitudes such as availability of credit, interest rates, and money supply to achieve the ultimate objective of economic policy mentioned in the Reserve Bank of India Act, 1934. The main aim of the financial policy is to retain price stability while considering the goal of growth. Stability in price is a necessary prerequisite to sustainable growth. The Reserve Bank of India Act of 1934, in May 2016, was amended to provide a legal basis for the execution of the flexible inflation targeting agenda. The edited RBI Act also provides for the inflation target to be set by the Indian Government, after discussing with the Reserve Bank, once in every five years. The Central Government has mentioned in the Official Gazette 4% Consumer Price Index (CPI) inflation as the target for the period from 5 August 2016 to 31 March 2021, with the higher tolerance limit of 6% and the lower tolerance limit of 2%. The Central Government also notified the following factors that causes a failure to achieve the inflation target: The average inflation is over the upper tolerance level of the inflation target for any three consecutive quarters.The average rise is less than the lower tolerance level for any three straight quarters. Before the RBI Act was amended in May 2016, the flexible inflation targeting agenda was administered by an Agreement on Monetary Policy Framework between the RBI and the government of February 20, 2015. Monetary Policy Framework The modified RBI Act provides the legislative mandate explicitly to the Reserve Bank of India in order to operate the policy framework of the country. The monetary policy framework aims to set the policy repo rate as per the assessment of the present and developing macroeconomic situation. The agenda also aims at modulating liquidity conditions to adjust the money market rates at/around the repo rates. The repo rate changes spread through the money market to the entire financial system, influencing the aggregate demand – a key factor of inflation and growth. Once the repo rate is declared, the operating structure designed by RBI predicts liquidity management on a daily basis through suitable actions, aiming to anchor the weighted average call rate (WACR) around the repo rate. The operating framework is modified and reviewed depending on the growing financial market and economic conditions, while ensuring uniformity with the financial policy stance. The liquidity management framework was revised significantly in April 2016. Monetary Framework Process Section 45ZB of the revised RBI Act, 1934 provides for an authorised six-member monetary policy committee (MPC) to be founded by the Central Government by notification in the Official Gazette. Therefore, the Central Government in September 2016 constituted the MPC as under: Governor of the RBI – Chairperson, ex officio.Deputy Governor of the RBI, in charge of Monetary Policy – Member, ex officio.One officer of the RBI to be nominated by the Central Board – Member, ex officio.Shri Chetan Ghate, Professor, Indian Statistical Institute (ISI) – Member;Professor Pami Dua, Director, Delhi School of Economics – Member; andDr. Ravindra H. Dholakia, Professor, Indian Institute of Management, Ahmedabad (IIMA) – Member. Please note: Members mentioned from 4 to 6 above, will hold office for four years or until further notice, whichever is earlier. The MPC fixes the policy interest rate required to reach the high target. The MPC's first meeting was held on 3 and 4 October 2016 prior to the Fourth Bi-monthly Monetary Policy Statement, 2016-17. The RBI's Monetary Policy Department (MPD) supports the MPC in framing the monetary policy. Views of important stakeholders in the economy, and logical work of the RBI add to the process for arriving at a decision on the policy repo rate. The Financial Markets Operations Department (FMOD) operationalises the financial policy through the daily liquidity management operations. The Financial Markets Committee (FMC) meets on a day-to-day basis to evaluate the liquidity conditions to ensure that the working target of the weighted average call money rate (WACR). Before the MPC was constituted, a Technical Advisory Committee (TAC) on the monetary policy with specialists from fiscal economics, financial markets, central banking, and public finance advised the Reserve Bank on the stance of monetary framework. Though, its role was only advisory in nature. With the formation of MPC, the TAC on Monetary Policy ceased to exist. Monetary Policy Instruments There are numerous direct and indirect instruments used for executing monetary policy, which are as follows: Repo Rate: The fixed interest rate which the RBI provides to lend instant money to banks against the government security and other approved collaterals under the liquidity adjustment facility (LAF).Reverse Repo Rate: The fixed interest rate at which the RBI absorbs liquidity, on an instant basis, from banks against the security of eligible government securities under the LAF.Liquidity Adjustment Facility (LAF): The LAF comprises overnight and term repo auctions. Gradually, the RBI has increased the amount of liquidity injected under the modified variable rate repo auctions of range of tenors. The objective of term repo is to help develop the interbank term money market, which can set market based standards for loan prices and deposits, and hence develop transmission of monetary policy. The RBI also offers variable interest rate reverse repo auctions, as imposed under the market conditions.Marginal Standing Facility (MSF): A facility under which planned commercial banks can lend extra amount of immediate cash from the RBI by dipping into their Statutory Liquidity Ratio (SLR) collection up till a limit at a penal rate of interest. This, in turn, provides a safety valve against unexpected liquidity shocks to the banking system.Corridor: The MSF rate and reverse repo rate regulate the corridor for the daily movement in the weighted average call money rate.Bank Rate: It's the rate at which the RBI is ready to purchase or rediscount invoices of exchange or other commercial papers. The bank rate is available under Section 49 of the Reserve Bank of India Act, 1934. The rate is associated with the MSF rate and changes automatically as and when the MSF rate changes along with the policy repo rate changes.Cash Reserve Ratio (CRR): The average day-to-day balance a bank is required to sustain with the RBI as a share of such per cent of its net demand and time liabilities (NDTL) that the RBI may advise from time to time in the Gazette of India.Statutory Liquidity Ratio (SLR): The share of NDTL a bank is required to retain in safe and liquid assets, such as tangential government securities, cash, and gold. Variations in SLR often affect the availability of resources in the banking system for lending to the private sector.Open Market Operations (OMOs): These include outright purchase and transaction of government securities, for injection and absorption of durable liquidity, respectively.Market Stabilisation Scheme (MSS): This tool for monetary supervision was introduced in 2004. Excess liquidity of a more lasting nature arising from the inflow of large capital is absorbed via sale of short-dated government collaterals and treasury bills. The cash received is held in a separate government account with the RBI. Open and Clear Monetary Policy Making Under the modified RBI Act, the monetary framework making is as under: The MPC should meet at least four times in a year.The minimum number of members for the meeting of the MPC is four.Each MPC member gets one vote, and in case of an equality of votes, the Governor has a casting or second vote.The purpose adopted by the MPC is printed after the conclusion of every meeting of the MPC as per the provisions of Chapter III F of the Reserve Bank of India Act, 1934. On the 14th day, the minutes of the meeting of the MPC are printed, which are as follows: The resolution adopted by the MPC.The vote of each member on the resolution, ascribed to such member.The statement of each member on the resolution adopted. Once in every six months, the RBI is should publish a document called the Monetary Policy Report to explain: The sources of inflation.The prediction of inflation for 6-18 months ahead. Legal Framework The Reserve Bank of India Act, 1934 is amended from time to time. To know the changes, check out the official RBI website.