

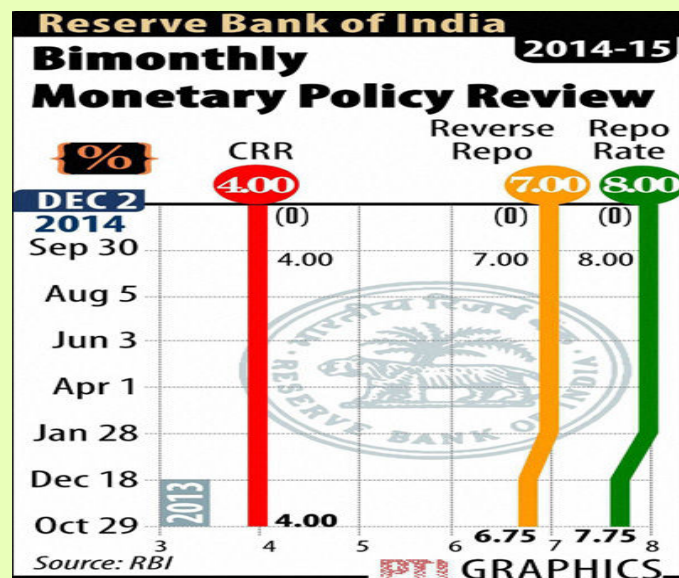
Topic of the week for discussion: 4th to 10th Dec. 2014

Topic: RBI' s Status Quo

Highlights

- The repo rate continues to be at 8 per cent while the cash reserve ratio has also been retained at 4 per cent.
- Central forecast for retail inflation is revised downward to 6 per cent from 8 per cent for March 2015.
- No changes from previous rates and signal of rate cut early next year, if all stays well.

Graphical Representation



In its 5th Bi-annual policy announced on 2nd Dec 14, The Reserve Bank of India held interest rates steady with expected ease in monetary policy early next year provided inflationary pressures do not reappear and the government controls the fiscal deficit.

- Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation.
- Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank.

Topic
Introduction

What Finance Ministry wants?

Uneasy over India's weak recovery from its slowest phase of growth since the 1980s, the six-month-old government of Prime Minister Narendra Modi had been seen as favouring an early reduction in rates.

The finance ministry wants the RBI's support in "the revival of growth and employment" while adding it would work with the RBI on reducing inflationary expectations and reviving investment and growth.

Finance Minister, Arun Jaitley has called for a rate cut to make capital cheaper and spur investment in an economy that grew at less than 5% in each of the past two years. Gross domestic product grew 5.3% in the three months ended September, slowing from 5.7% in the preceding quarter; inflation based on the consumer price index decelerated to 5.52% in October, the lowest since the series began in January 2012, and oil prices collapsed to four-year lows below \$72 per barrel.

What RBI Says?

RBI Governor Raghuram Rajan has resisted calls for rate cuts and earlier reiterated his view that containing inflation was a prerequisite for the economy.

"A change in the monetary policy stance at the current juncture is premature. However, if the current inflation momentum and changes in inflationary expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year, including outside the policy review cycle," he said.

Rajan said, "Moderate inflation was the key to economic growth, responding to government and corporate calls for lower borrowing costs. I think it is very short-sighted when people comment that you are not helping growth this quarter, we are not talking about quarters, but years of sustainable growth. In order to get that you need to fight inflation, beat it and then you can get to sustainable growth—that is the message that has to seep through"

Read further:

http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=32649

http://articles.economicstimes.indiatimes.com/2014-12-02/news/56648831_1_monetary-policy-stance-key-rates-consumer-price-inflation

<https://www.equitymaster.com/dailyreckoning/detail.asp?date=12/03/2014&story=4&title=Rajan-and-RBI-have-done-their-bit-now-the-ball-is-in-governments-court>

<http://firstbiz.firstpost.com/money/decoding-rbi-governor-rajans-policy-if-alls-well-rate-cuts-will-begin-by-mid-march-111181.html>