# RBI maintains status quo in Fifth Bi-monthly Monetary Policy Statement, 2016-17

**Policy repo rate remains unchanged at 6.25% and Cash Reserve Ratio (CRR) also unchanged at 4%**

## PHD Chamber's view point on RBI Monetary Policy

Status quo in policy repo rate was disappointing as the pressure of high interest rates is impacting industrial and investment environment in the country. However, the decision of RBI to withdraw the incremental Cash Reserve Ratio (CRR) requirement effective the fortnight beginning December 10, 2016 is welcomed. The enhanced liquidity with the banking sector would create a scope for reduction in the lending rates. As the process of demonetization to remonetization has created a good liquidity in the banking sector, the lending rates should be in line with recent cut in deposit rates. Banking sector should fully transmit the repo rate cuts by the RBI during the last many quarters

Though the repo rate has been reduced by 175 basis points in the last two years from 8% in December 2014 to 6.25% in October 2016, there is hardly any relief in the cost of credit by the banking sector. Industry is facing a tough environment as the demand is decelerating and costs of borrowings are significantly high. Industrial growth (IIP) has registered a growth rate of (-) 0.1% in April-September 2016-17. The industrial sector at this juncture need a major support in its financial requirements majorly the lower costs of borrowings. In order to enhance the aggregate demand and to boost up the manufacturing sector as inflation has significantly came down to less than 5%, interest rates in the economy should be lowered to generate demand, enhance production possibilities and create employment in the economy

## RBI maintains status quo in Fifth Bi-monthly Monetary Policy Statement, 2016-17

On the basis of an assessment of the current and evolving macroeconomic situation at its meeting today, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. The decision of the MPC is consistent with an accommodative stance of monetary policy in consonance with the objective of achieving consumer price index (CPI) inflation at 5 per cent by Q4 of 2016-17 and the medium-term target of 4 per cent within a band of +/- 2 per cent, while supporting growth

**The RBI policy rates so far**

| Components | 02-Dec-14 | 15-Jan-15 | 03-Feb-15 | 04-Mar-15 | 07-Apr-15 | 02-Jun-15 | 04-Aug-15 | 29-Sep 2015 | 1st Dec 2015 | 2nd Feb 2016 | 5th April 2016 | 7th June 2016 | 09th August 2016 | 4th October 2016 | 7th December 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CRR | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Repo Rate | 8.00% | 7.75% | 7.75% | 7.5% | 7.5% | 7.25% | 7.25% | 6.75% | 6.75% | 6.75% | 6.5% | 6.5% | 6.5% | 6.25% | 6.25% |
| Reverse Repo Rate | 7.00% | 6.75% | 6.75% | 6.5% | 6.5% | 6.25% | 6.25% | 5.75% | 5.75% | 5.75% | 6.00% | 6.00% | 6.00% | 5.75% | 5.75% |
| WPI Inflation | 1.7%^ | 0.17^^ | -0.5 ^^^ | - 0.39” | -2.06”” | -2.65 @* | -2.4 @** | (-) 4.95 @*** | (-)3.8 @**** | (-) 0.73 @# | (-) 0.91% @#* | 0.34% (Apr-2016) | 1.62 (Jun-16) | 3.74% (Aug-16) | 3.39% (Oct-16) |
| CPI inflation\@ | 5.00 | 5.11 | 5.37 | 5.17 | 4.87 | 5.40 | 3.66 | 4.41 | 5.61 | 5.18 | 5.39 | 5.77 | 5.77 (Jun-16) | 5.05% (Aug-16) | 4.2% (Oct-16) |
| IIP growth | 2.8%* | - 4.2%** | 3.9%*** | 3.2@ | 2.6@@ | 2.1% @^ | 2.7 @^^ | 4.2 @^^^ | 3.6@ ^^^^ | - 3.2%@## | -1.5% @#** | 0.1% (Mar 16) | -0.8% (Apr-16) | -2.4% July 2016 | 0.7% (Sep-16) |
| Real GDP growth | 5.3%# | 5.3% | 5.3% | 7.4$ | 7.8 $$ | 7.3%$$$ | 7.6%; | 7.4%;; | 7.4%;; | 7.4%;; | 7.6%^# | 7.6%^# | 7.6^# | 7.6^# | 7.1%^## |

Source: PHD Research Bureau, compiled from various sources, Note:, , #Data for Gross domestic product for Q2 of 2014-15, ^Data for Oct 2014, ^^ Data for November 2014 , ^^^December 2014,” Data for Jan 2015, “” Data for Feb 2015, *Data for Sep 2014, ** Data for Oct 2014 and *** Data for Nov 2014.@ Data for Dec 2014 @@ Data for Jan 2015. Note: The Ministry of Statistics & Programme Implementation has released the new series of national accounts, revising the base year from 2004-05 to 2011-12. With this backdrop, real GDP growth for 2012-13 is estimated at 5.1% and 6.9% for 2013-14, $Advance estimates of national income 2014-15 MOSPI, $$ RBI projections in the first Bi-monthly Monetary Policy Statement, 2015-16. @^ IIP for the month of March 2015, @* WPI for April 2015. $$$Real GDP growth Provisional estimates of 2014-15, MOSPI, @** Data for month of June 2015, @*** Data for August 2015 @**** Data for Oct 2015, @# December 2015 @#* Feb 2016 @^^ Data for May 2015, @#** January 2016 @^^^ Data for July 2015, @^^^^Data for Sep 2015 , @## Nov 2015; RBI projection of GVA growth for 2015-16, ;; RBI projections according to 4th, 5th & 6th Bi-monthly Monetary Policy Statement, 2015-16, ^#GVA growth projection for 2016-17 by RBI \@CPI inflation for the respective month of the year. ^##GVA growth projection for 2016-17 by RBI in monetary policy dated 7 Dec 2016.

## Snapshot of Fifth Bi-monthly Monetary Policy Statement, 2016-17

Global growth picked up modestly in the second half of 2016, after weakening in the first half. Activity in advanced economies (AEs) improved hesitantly, led by a rebound in the US. In the emerging market economies (EMEs), growth has moderated, but policy stimulus in China and some easing of stress in the larger commodity exporters shored up momentum. World trade is beginning to emerge out of a trough that bottomed out in July-August and shows signs of stabilising. Inflation has ticked up in some AEs, though well below target, and is easing in several EMEs. Expectations of reflationary fiscal policies in the US, Japan and China, and the waning of downward pressures on EMEs in recession are tempered by still-prevalent political risks in the euro area and the UK, emerging geo-political risks and the spectre of financial market volatility.

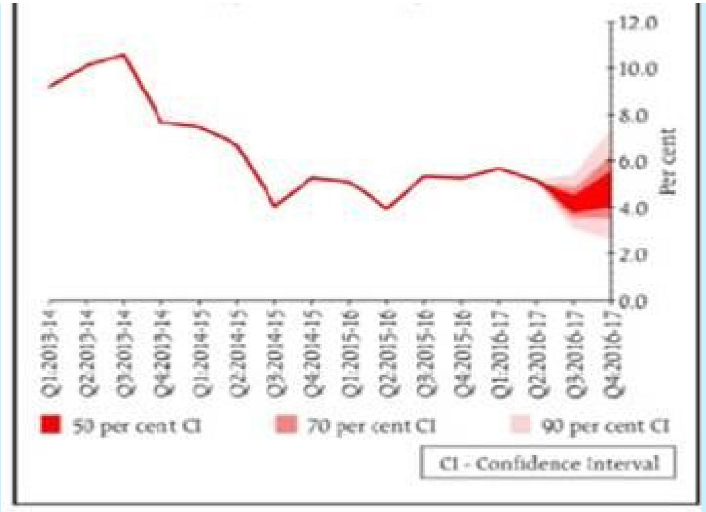
International financial markets were strongly impacted by the result of the US presidential election and incoming data that raised the probability of the Federal Reserve tightening monetary policy. As bouts of volatility fuelled a risk-off surge into US equities and out of fixed income markets, a risk-on stampede pulled out capital flows from EMEs, plunging their currencies and equity markets to recent lows even as bond yields hardened in tandem with US yields. The surge of the US dollar from late October intensified after the election results and triggered sizable depreciations in currencies around the world. Commodity prices firmed up across the board from mid-November on an improvement in the outlook for demand following the US election results, barring gold which lost its safe haven glitter to the ascendant US dollar. Crude prices have firmed after the OPEC's decision to cut output.

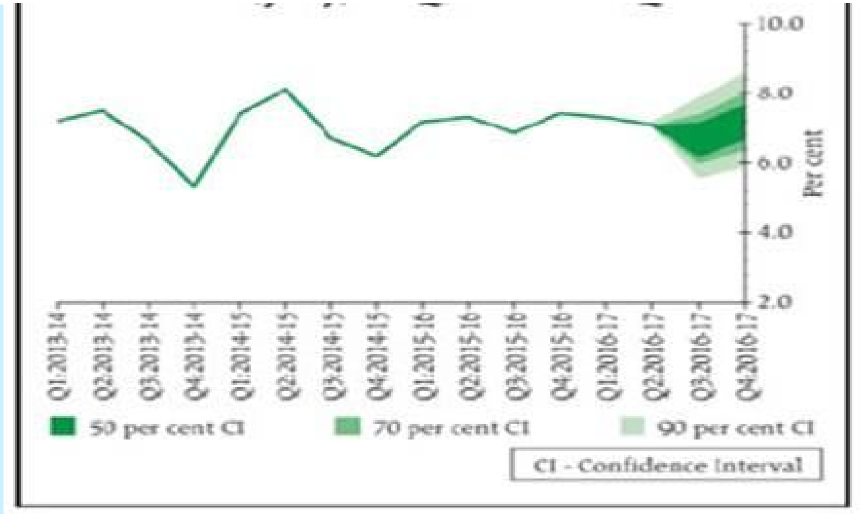
On the domestic front, the growth of real gross value added (GVA) in Q2 of 2016-17 turned out to be lower than projected on account of a deeper than expected slowdown in industrial activity. Manufacturing slowed down both sequentially and on an annual basis, with weak demand conditions and the firming up of input costs dragging down the profitability of corporations. Gross fixed capital formation contracted for the third consecutive quarter. Although government final consumption expenditure slowed sequentially, it supported private final consumption expenditure, the mainstay of aggregate demand. The contribution of net exports to aggregate demand remained positive, but on account of a sharper contraction in imports relative to exports.

The outlook for GVA growth for 2016-17 has turned uncertain after the unexpected loss of momentum by 50 basis points in Q2 and the effects of the withdrawal of SBNs which are still playing out. Downside risks in the near term could travel through two major channels: (a) short-run disruptions in economic activity in cash-intensive sectors such as retail trade, hotels & restaurants and transportation, and in the unorganised sector; (b) aggregate demand compression associated with adverse wealth effects. The impact of the first channel should, however, ebb with the progressive increase in the circulation of new currency notes and greater usage of non-cash based payment instruments in the economy, while the impact of the second channel is likely to be limited. In October 2016, GVA growth in H2 was projected at 7.7 per cent and for the full year at 7.6 per cent. Incorporating the expected loss of growth momentum in Q3 and waning effects in Q4 alongside the boost to consumption demand from higher agricultural output and the implementation of the 7th CPC award, **GVA growth for 2016-17 is revised down from 7.6 per cent to 7.1 per cent**, with evenly balanced risks

**Quarterly projection of CPI inflation (y-o-y) for Q3: 2016-17 to Q4: 2016-17**

**Quarterly projection of growth in GVA at basic prices (y-o-y) for Q3 : 2016-17 to Q4: 2016-17**




Source: RBI

Please contact for any query related to this mail to Ms. Surbhi Sharma, Sr. Research Officer at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist, PHD Chamber of Commerce & Industry.

Warm regards,

**Dr. S P Sharma**
**Chief Economist & Director-Research**
-----------------------------------------------
PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454 Ext (135)
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in