

**Highlights of the Reserve Bank of India's Third Bi-Monthly
Monetary Policy Resolution for 2017-18**

MAIN HIGHLIGHTS

- * MPC cuts repo rate by 25 bps to 6%
- * Reverse repo adjusts to 5.75%
- * MSF, Bank Rate adjusts to 6.25%
- * See real FY18 GVA growth at 7.3%
- * Maintain neutral policy stance with focus on 4% CPI

INFLATION

- * MPC to continue monitoring movements in inflation
- * MPC to study if recent inflation data transient - as unknown risks lies in GST implementation, loan waivers etc
- * MPC notes that the trajectory of inflation in the baseline projection is expected to rise from current lows

FISCAL

- * To take steps to make Base Rate responsive to fall in costs
- * Eases some norms for liquidity coverage ratio computing
- * Separate limit for interest rate futures for FPIs
- * Some upside risks to CPI have reduced/not materialised

MISCELLANEOUS

- * 4 MPC members voted for 25 bps repo rate cut
- * Mr. Dholakia voted for 50 bps repo rate cut
- * ED Mr. Patra voted for status quo on repo rate
- * Dr Acharya mentioned that performance of MCLR has not been satisfactorily and a committee is set up to study if it could be linked with some market interest rate.
- * Outlook for Agriculture robust, but removal of infrastructure bottlenecks, affordable housing and private investment required boost
- * RBI working with Government to address bank capital issues and NPA
- * Next MPC meet on Oct 3-4

REGULATORY POLICIES ANNOUNCED

- * Measures to Improve Monetary Policy Transmission as performance of MCLR has not been satisfactorily and a committee is set up to study if it could be linked with some market interest rate
- * Marginal relaxation in LCR Guidelines to help banks
- * High Level Task Force on Credit bureaus for developing a transparent, comprehensive Public Credit Registry
- * Create a database to facilitate efficient credit appraisals by Credit Institutions and reduce information asymmetries
- * Introduction of tri-party repos to contribute to better liquidity in the corporate bond repo market
- * Simplify the process for hedging exchange rate risk by reducing documentation requirements

Overall, the RBI's rate decision and its neutral stance are in line with expectations. The neutral stance suggests that the RBI's decision-making remains data-dependent. Going ahead, GST-related growth weakness in June/July and a gradual recovery after August (due to post GST normalisation, ongoing re-monetisation, normal monsoons, lower lending rates and ample liquidity). Headline inflation bottomed in June and we expect it to rise gradually to above the medium-term target of 4% on higher food prices and statistical factors (HRA increases, adverse base effects).