RBI Bimonthly Monetary Policy - June 2019

Why in news?

The Reserve Bank of India (RBI) made a 25 basis point (0.25 percentage point) cut in the key policy rate, the repo rate (at which banks borrow from the RBI).

What is the RBI's rationale?

- The inflation is well under the benchmark figure of 4%.
- Given this, a deeper 50 basis point cut was expected as well.
- But the RBI has played conservative in announcing a rate cut of just 25 basis points.
- The idea could have been to ensure space for a further rate cut, if needed, in the next policy.
- The RBI's current stance indicates that its focus is more on growth.

What are the other key decisions and observations?

- **Policy stance** - The RBI Governor Shaktikanta Das's statement suggested a change of stance to ‘accommodative’ from ‘neutral’.
- An 'accommodative' stance eradicates the possibility of going back to a rate hike suddenly.
- This also signals higher chances of more cuts in the coming months if inflation persisted within tolerable limits.
- **Liquidity** - Ensuring systemic liquidity seems to remain a key priority for the central bank.
- The RBI Governor also suggested setting up of an internal working group to review the existing liquidity management framework.
- **Digital Transaction** - The RBI has decided to do away with its charges on RTGS/NEFT (Real Time Gross Settlement System/National Electronic Funds Transfer) transactions.
- This is welcome provided it can ensure that banks pass on the benefit to customers.
- **Basel norms** - The central bank has also proposed measures such as a reduction in the leverage ratio under Basel norms for banks.
- This will increase the banks' lendable resources.
- **Growth rate** - The projected growth rate for this fiscal has been lowered to 7% from the 7.2% projected in April, 2019.

- The first-half growth is estimated at 6.4-6.7%, which by itself appears ambitious given the current trends in the economy.

What lies ahead?

- The one area where the RBI has some work to do is in the transmission of rates.
- By its own admission, only 21 of the cumulative 50 basis points rate cut in the February and April policies has been passed on to borrowers by banks.
- The excuse from banks, at least in the last few months, was that liquidity was tight and so deposit rates could not be cut.
- However, liquidity has considerably improved in the last week, and more so with the financial decisions of the new government.
- There cannot be any more excuses from banks to not pass on the cuts fully, and the RBI should ensure this.
- Besides, with the RBI having done its part, the focus now shifts to the Finance Ministry.
- The onus is now on the budget, to be presented in July, 2019, to revive the economy from the current slowdown.

Source: The Hindu

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