



## RBI's 5<sup>th</sup> Bi-Monthly Monetary Policy, 2019-20

### Background

- RBI met today for its Fifth Bi-monthly Monetary Policy Statement for 2019-20. RBI has cut interest rate by 135bps since Feb 2019.
- Following a weak GDP number at 4.55% reported for quarter ending Sep 2019 last week, street was expecting further cut in interest rate.
- We expected rate cut of 25bps given the weak macro numbers.

### Decision

- In an unexpected move, RBI kept the repo rate unchanged at 5.15% (keeping other policy rates unchanged), however we believe this MPC was a right time for RBI to cut interest rates, especially when economic growth is bottoming out.
- RBI also kept its stance unchanged at 'Accommodative' to support growth.
- The CPI inflation target has been revised up sharply to 5.1-4.7% for 2HFY20 from 3.5-3.7% earlier.
- The GDP growth forecast has been abruptly cut by 110bps to 5% for FY2020 from 6.1% earlier. The economy is estimated to grow by 4.9-5.5% in H2 FY20 and 5.9-6.3% in H1 FY21.

### Our view and Way forward

- We expect Inflation to inch upwards going ahead. RBI acknowledged few green shoot economic developments as well as recently released weak macroeconomic indicators, however RBI believes, it is too early to react on the data points for any change in the stance or rates.
- RBI would wait for data to throw conclusions before taking any action. Further actions would also be driven by expected economic reforms that the Government might introduce to revive the economy. We believe RBI has resorted to 'Wait & Watch' strategy by depending on Government's economic reforms, upcoming Budget and macro data to drive any further rate actions.
- We also believe the commentary of 'Temporary Pause' indicates we are not yet done with the Rate cut cycle unless economy steps into the path of revival from here onwards.

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