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PUBLISHED SIMULTANEOUSLY FROM NEW DELHI, MUMBAI AND BHOPAL

VOL. 1, ISSUE 32 NEW DELHI | THURSDAY, DECEMBER 7, 2017 | ₹4 | PAGE 16

Repo Rates Unchanged by MPC

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As it was expected, the Reserve Bank of India (RBI) maintained the status quo on its key lending rates in the bimonthly monetary policy review. As per the statement released by the central bank it said that on the basis of an assessment of the current and evolving macroeconomic situation at its meeting, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 per cent. Consequently, the reverse repo rate under the LAF remains at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25 per cent. Out of six members in MPC, five members namely Chetan Ghate, Pami Dua, Michael Debabrata Patra, Viral V. Acharya and Urjit Patel favoured an unchanged repo rate, while Ravindra Dholakia voted for a 0.25 percentage point rate cut.

> The RBI's decision to maintain status quo indicates that it is cautious against the upside risks emanating from inflation, higher commodity prices, recent cuts in GST and global financial instability.
>
> **SURENDRA HIRANANDANI**
> **CHAIRMAN & MD, HOUSE OF HIRANANDANI**

The committee also said that in November the two factors that determine the cost of living and inflation – food and fuel inflation have gone up hence India's retail inflation needs to be repressed first before lowering the loan costs. "The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent... while supporting growth," the RBI said in its monetary policy statement.The monetary policy statement also said that there is a risk that the moderation in inflation might continue in recent time. It has also raised the retail inflation forecast (marginally) for the second half of the financial year to range between 4.3 to 4.7 per cent.On the growth outlook, the RBI retained a real GVA (gross value added) growth for 2017-18 at 6.7 per cent, "with risks evenly balanced".

"In the MPC's assessment... capital raised from the primary capital market has increased significantly after several years of sluggish activity. As the capital raised is deployed to set up new projects, it will add to demand in the short run and boost the growth potential of the economy over the medium-term," the policy statement said.

"Second, the improvement in the ease of doing business ranking should help sustain foreign direct investment in the economy. Third, large distressed borrowers are being referenced to the insolvency and bankruptcy code (IBC) and public sector banks are being recapitalised, which should enhance allocative efficiency."

The decision of maintaining the status quo received mixed reactions from the industry as Anshuman Magazine, Chairman, India and Southeast Asia, CBRE said, "The monetary policy committee's decision to maintain status quo on the rate cut is largely in consensus with industry expectations. Recent market sentiments such as increase in GDP growth rate and Moody's rating upgrade has started to revive the market sentiments. There has been certain movement in the credit growth in recent months. However, rising inflation remains a concern and the RBI seems to have taken a neutral stance to keep a close watch on inflationary pressures."

While, Abhishek Bansal, Executive Director, Pacific Group said, "A rate cut of 25 bps could have helped ease the pressure off the market which has been balancing itself through the confusions still pertaining with RERA and GST. During such scenarios, a slash in repo rate would have meant drop in home loan rates by banks, which ultimately reduces the burden off the buyers. With no change today, we expect the market to run uniformly with a static demand in the short run."

Whereas Avneesh Sood, Director, Eros Group appreciates the decision and says that this would give market more time to stabilise and allow inflation rates to come down in eventually. On the other hand, Deepak Kapoor, President CREDAI-Western U.P. & Director, Gulshan Homz says that this decision of RBI to keep the rates unchanged has proved very substantial in the first quarter post GST was implemented and the apex bank wants to maintain its vigilant approach in the upcoming two months as well. Before questioning the judgement of the apex bank on holding the rates, one must not forget that it has to keep sufficient cushion for the economy with the massive changes that will come about in the next few months in form of REITs, InvITs, and SPVs. Wherein Manoj Gaur, Vice President CREDAI-National & MD, Gaurs Group believes that a rate cut in the policy could have allowed the potential buyers to invest in property as the EMIs would have reduced further in coming months. We hope that the next bi-monthly policy review observes a rate cut as it has been a neutral review for the second straight time.

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