

RBI keeps repo rate unchanged at 6.50%; CRR at 4%: 4 key takeaways: The Business Line

The Reserve Bank of India (RBI) maintained status quo on key policy rates at its third bimonthly money policy review of the financial year on Tuesday.

This was the second straight money policy review in which the central bank has stood pat on policy rates. It also marked the last policy review by outgoing RBI Governor Raghuram Rajan.

The central bank maintained the repo rate, the rate at which commercial banks borrow from the central bank, at 6.5 per cent while maintaining the cash reserve ratio (CRR) at 4 per cent. RBI also announced an open market operation on August 11 to frontload liquidity..

"Continue to provide liquidity as required, but lower the average ex-ante liquidity deficit in the system progressively from one per cent of NDTL to a position closer to neutrality," RBI said in a statement.

Here are the key takeaways from Raghuram Rajan's final money policy review:

Dovish stance: The Reserve Bank of India (RBI) maintained an accommodative stance in money policy despite giving a slightly hawkish stance on the inflation target of 5 per cent for March 2017.

"The stance of monetary policy remains accommodative and will continue to emphasise the adequate provision for liquidity," it said

Outlook on inflation: "The recent sharper-than-anticipated increase in food prices has pushed up the projected trajectory of inflation over the rest of the year. Moreover, prices of pulses and cereals are rising and services inflation remains somewhat sticky," RBI said in a statement.

However, the central bank did suggest that prices of vegetables, which have been the biggest contributor to inflation in recent months, are edging downward.

"On balance, inflation projections as given in the June bimonthly statement, i.e. of a trajectory towards 5 per cent by March 2017 with risks tilted to the upside, are retained," it said.

Outlook on growth: "Looking ahead, the momentum of growth is expected to be quickened by a normal monsoon, raising agricultural growth and rural demand," RBI said.

The central bank expects disbursement of payment under the 7th Pay Commission to further

aid growth by giving consumer demand a push.

"A stimulus to consumption spending can be expected from the disbursement of pay, pension and arrears following the implementation of the 7th CPC's award," RBI said.

It maintained its 7.6 per cent GVA growth target for March 2017.

On Goods and Services Tax: "The passage of the Goods and Services Tax (GST) Bill augurs well for the growing political consensus for economic reforms," the central bank said.

However, RBI sees challenges to GST implementation. "There is no doubt it should raise returns to investment across much of the economy, even while strengthening government finances over the medium term."