

Cuts Rate..Accommodative Stance

Cuts Repo Rate by 25 bps to 6.25%.

Reverse Repo Rate at 5.75%

Marginal Standing Facility and Bank rate at 6.75%.

Startups can raise external commercial borrowings (ECBs) of up to 3 million in a financial year either in INR or any convertible foreign currency or a combination of both.

The next meeting of the MPC is scheduled on December 6 and 7, 2016 and its resolution will be announced on December 7.

To allow Overseas Parent to Hedge Currency Risk from Genuine Current Account Exposure of Indian Subsidiary.

The Reserve Bank of India (RBI), in its maiden review by newly set up six member Monetary Policy Committee (MPC) including newly appointed Governor, Dr. Urjit Patel cut Policy Repo rate by 25 bps from 6.50 per cent to 6.25 per cent in the Fourth Bi-Monthly Monetary Policy Review (2016-17). The **decision was unanimous** with all the six members voting in favor of rate cut.

Consequently, the **Reverse Repo Rate under the Liquidity Adjustment Facility (LAF)** stood adjusted to 5.75 per cent and the **Marginal Standing Facility (MSF) rate and the Bank Rate** to 6.75 per cent.

The decision of the MPC is consistent with an **accommodative stance of monetary policy** in consonance with the objective of achieving **consumer price index (CPI) inflation at 5 per cent by Q4 of 2016-17** and the medium-term target of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The RBI also left the **Cash Reserve Ratio (CRR) of scheduled Banks unchanged at 4% of their net demand and time liability (NDTL)**.

With no history to rely on, economists were split on the outcome. CPI gains slowed to 5.05 percent in August after briefly breaching the upper range of the inflation target, as good monsoon rains pushed down food costs. That was enough to warrant a cut in the benchmark repurchase rate to 6.25 percent from 6.5 percent, according to our expectations. 17 of 39 economists in a Bloomberg survey expected a rate cut and others expected no cut, hence the decision was against majority consensus.

India's Q1 (April-June) FY17 GDP growth came in at a five-quarter low of 7.1% YoY against 7.9% YoY in the previous quarter. GDP growth stood at 7.5% YoY in Q1 of FY16. However, GVA was in expected line, registering 7.3% YoY growth against 7.2% YoY in Q4 of FY16 and 7.4% YoY during the same quarter last year. This suggested that subsidies in the first quarter grew at a faster pace than indirect taxes. That is mainly because from Q1 itself, the Government has started releasing subsidy allocations to the food, petroleum and fertilizer. During Q1, subsidies increased by 53% YoY.

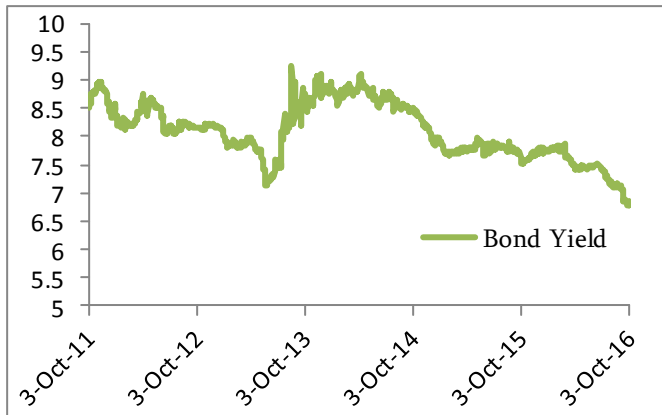
India's Industrial Production growth came in at **-2.4% YoY in July 2016 against 2.0% YoY in June**, on account of a poor performance of Manufacturing sector on the back of heavy contraction in Capital Goods output. Production of Capital Goods sector contracted for the ninth consecutive month due to -59.2% YoY decline in Electrical Machinery. In Electrical Machinery, items like Cable, Rubber Insulated fell by 91.1% YoY and contributed -4.24 percentage points to the headline print. **During April-July of FY2016-17, Industrial growth stood at -0.2% YoY against 3.5% YoY in the corresponding period of FY2015-16.** In value terms, the Index of Industrial Production (IIP) **decreased to 176.1 from 182.8 in June, registering 3.7% sequential decline.**

India's CPI Inflation came in at a **5 month low of 5.05% YoY in August 2016 against 6.07% YoY last month**, on account of lower food prices and favourable base effect. Fall in Food Inflation and Fuel Index dragged down the overall numbers into the comfort zone of the Central Bank, which has targeted 5.0% Inflation by March 2017. Food Inflation decreased to 5.83% YoY in August from 7.96% YoY last month. **Core Inflation came in at 4.7% YoY in August against 4.6% YoY previously.**

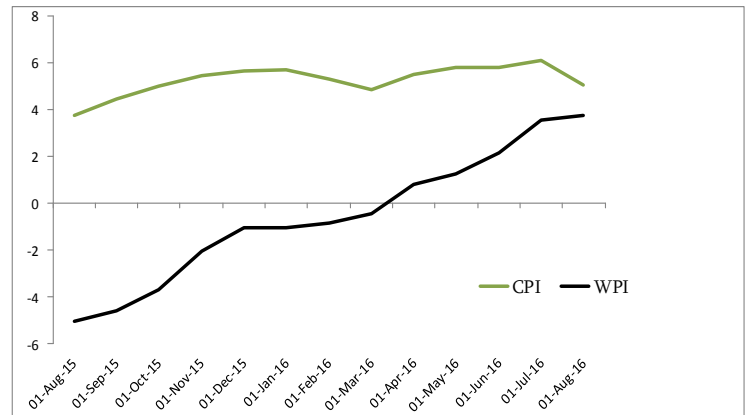
Key Notes

- The Monetary Policy Committee expects that the **strong improvement in sowing, along with supply management measures**, will improve the food inflation outlook.
- The Government has announced several measures to cool food inflation pressures, especially with regard to pulses. These measures should help in moderating the momentum of food inflation in the months ahead.
- The recent **downward adjustment in the small savings rate will help banks to find further impetus for better transmission.**
- The committee also **took note of potential cost push pressures that may emerge**, including the 7th pay commission award on house rent allowances, and the increase in minimum wages with possible spillovers through minimum support prices.
- Normal monsoon leading to higher agricultural growth and rural demand coupled with increased urban consumption spending from the pay commission's award is expected to hasten the growth momentum.
- The **accommodative stance of monetary policy and comfortable liquidity conditions should support a revival of credit to the productive sectors.**
- The projection of growth of real **Gross Value Added (GVA) for 2016-17 is retained at 7.6 per cent**, with risks evenly balanced around it.
- The decision to retain the growth of GVA at 7.6 per cent is on account of continuing sluggishness in the world trade and also smaller terms of gain in trades than in the past which will further slack the external demand in future.
- **Liquidity conditions have remained comfortable in Q3, with the Reserve Bank absorbing liquidity on a net basis through variable rate reverse repo auctions of varying tenors.**
- RBI to issue revised rules on pre-paid payment tools by December 31.

Indian Government 10 Year Bond Yield



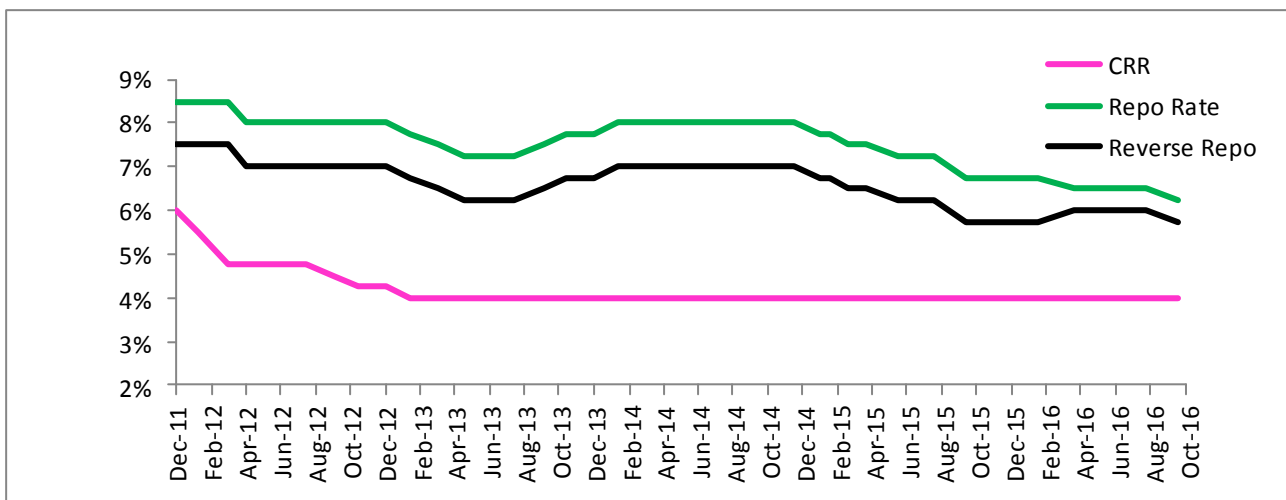
India's CPI and WPI Trend



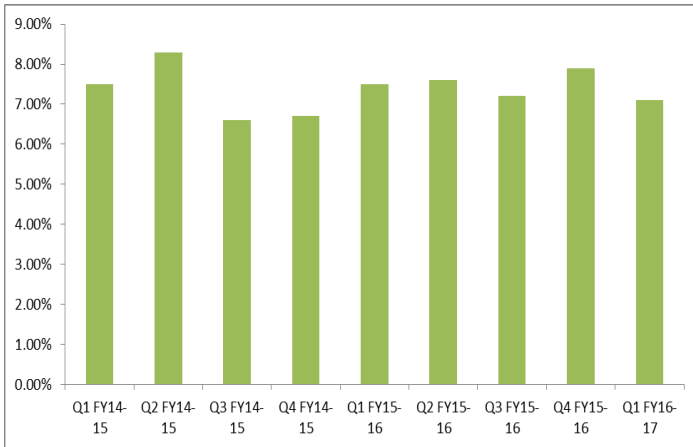
Key Quotes by RBI Governor

- *The Governor said they would deal with the NPA situation with firmness, just 5 sectors contribute 61% of the stressed sectors of the banking sector*
- *MPC members will help enhance the process and quality of policymaking*
- *The Governor says that IMF may further downgrade global growth and that he would be surprised if it doesn't*
- *Weak global demand is going to drag down trade volumes*
- *Will watch out for the outcome of US presidential election*

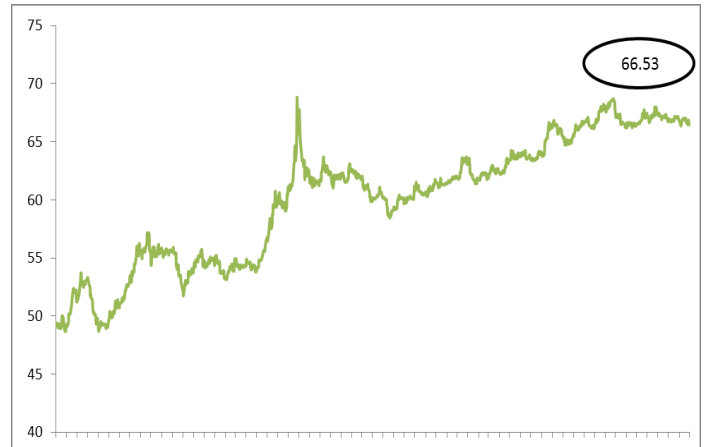
RBI's Monetary Policy Stance



India's GDP Growth Trend



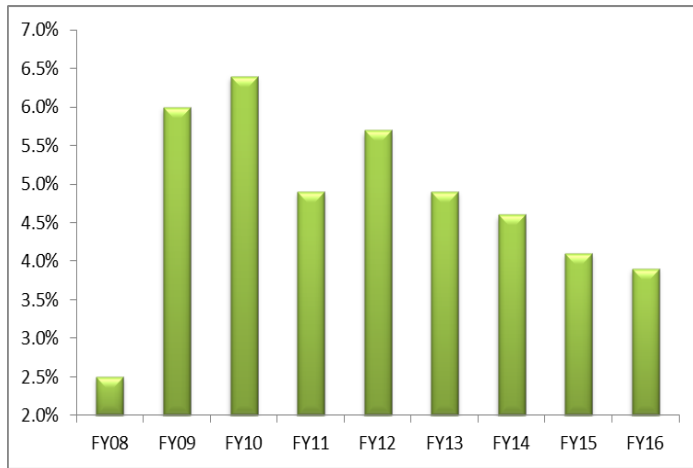
INR Vs US Dollar



3rd Oct 2011

3rd Oct 2016

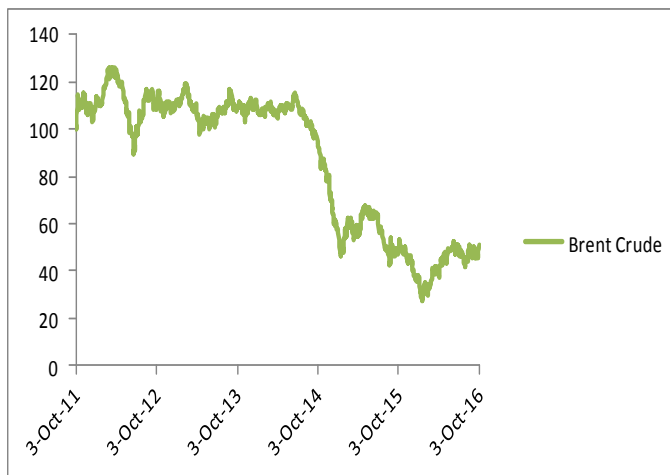
India's Fiscal Deficit Trend



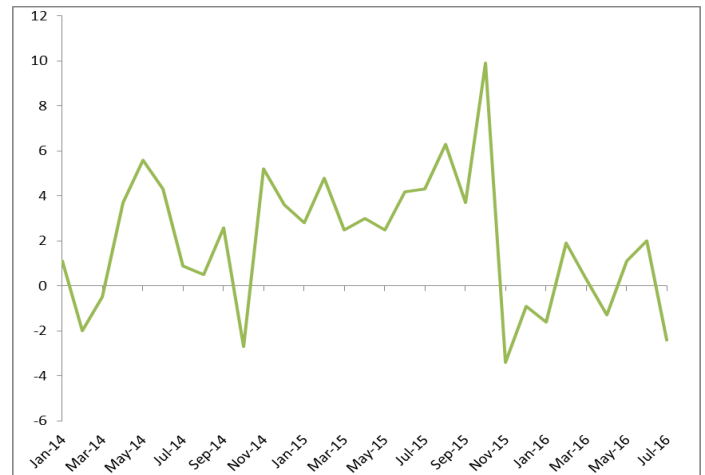
India's Trade Deficit Trend



Brent Crude Price Trend (In \$/bbl)



India's Industrial Production Trend



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