Mid Quarter Monetary Policy Review - December 2013

Status Quo Maintained by RBI

RBI to vouch for more data before taking any policy actions | Domestic Inflation & QE Tapering on Radar

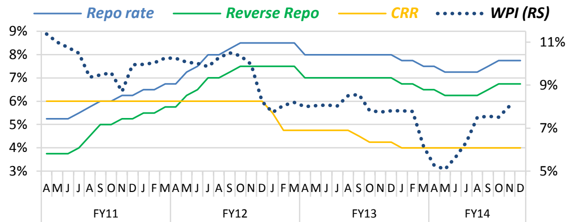
Policy Measures

Policy Rates Unchanged

Repo unchanged at 7.75%
Reverse repo unchanged at 6.75%

CRR kept unchanged at 4.00%
SLR kept unchanged at 23.00%

Marginal Standing facility (MSF) unchanged at 8.75%



Policy At A Glance

Major Issues

> Global growth remains moderate with an uneven recovery and deceleration in major emerging economies except China.

> QE tapering is inevitable and financial may again go volatile in response to its outcome.

> Domestic lead indicators to industrial & services activity still point a slower recovery in Q3. Alongside the fiscal pressure may hinder the revival of stalled projects.

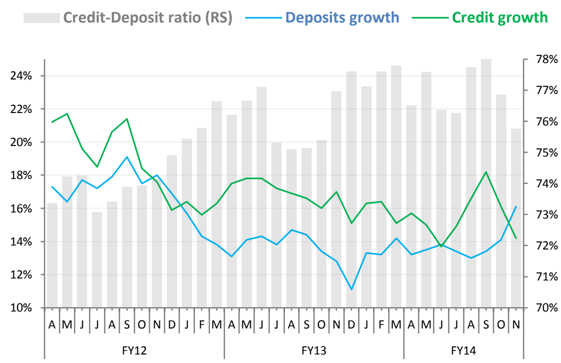
> Inflation risk persists posing a threat to financial & exchange rate stability along with growth. However, vegetable prices seem to be correcting in certain areas.

> Liquidity conditions improved on the back of monetary measures & capital inflows from swap facility. This will ensure adequate credit flow to productive sectors.

> The external scenario has improved further with narrowing trade deficit & rebuilding of forex reserves over robust inflows from swap window.

Credit Growth | Deposit Growth | Credit-Deposit ratio

Deposit Growth Improving

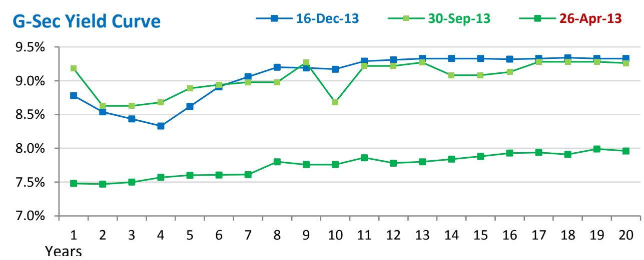


Outlook

Inflation, both WPI & CPI, are majorly driven by food prices. The indications of a sharp correction in food prices recently and the disinflationary impact of exchange rate stability may correct WPI ahead. However, pass on of this correction into CPI would be more dependent on intermediaries. This uncertainty over inflation in the short term and the lag affect with which monetary policy works induced RBI to vouch for more data before taking any action. Going forward, the QE tapering decision by US FED and domestic inflation reading in the coming months would warrant RBI's action even on off policy dates. RBI ensured that such actions would be in a calibrated manner to stabilize inflation expectations and support growth.
This policy action was in line with our monetary policy forerunner released yesterday - "*Monetary Policy Precusor – Resolving Macros*". There we highlighted the 5 major issues with India's macros (Growth, inflation, CAD, Fiscal deficit & Governance) *where a feasible solution has already been implemented or is in process. The impact of these measures is being visible in some areas and others would be visible in due course of time. Markets have already factored in a 25 bps hike in policy rates. Thus, this can be expected to be a non-event. In case RBI rescinds from a rate hike based on the underlying macros - markets should react positively.* Accordingly, 10 Yr G-Sec yield moved up by 10 bps immediately after the policy anouncement.

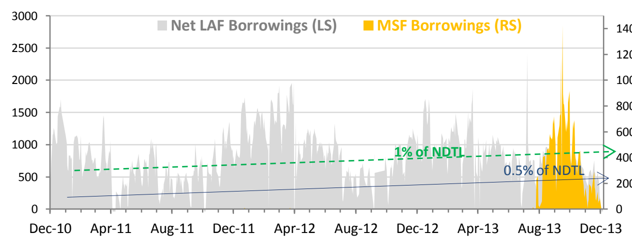
G-Sec Yield Curve

Yields Curve Streamlined



Commercial Bank's Borrowings from RBI (INR Bn)

Liquidity Situation Improved



Y-O-Y Growth (%)	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Change	Dec-12
Policy Rates								**Since Mar'13**	
Repo	7.25%	7.25%	7.25%	7.50%	7.75%	7.75%	7.75%	**0.25%**	8.00%
Rev Repo	6.25%	6.25%	6.25%	6.50%	6.75%	6.75%	6.75%	**0.25%**	7.00%
CRR	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	**0.00%**	4.25%
SLR	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	**0.00%**	24.00%
Credit Deposit Growth Rates	**Jun-13**	**Jul-13**	**Aug-13**	**Sep-13**	**Oct-13**	**Nov-13**	**Dec-13**	**Since Mar'13**	**Dec-12**
Deposit Growth	13.80%	13.40%	13.00%	13.40%	14.10%	16.10%	N/A	**1.90%**	11.10%
Credit Growth	13.70%	14.90%	16.60%	18.20%	16.10%	14.20%	N/A	**-0.90%**	15.10%
Credit-Deposit ratio	76.37%	76.27%	77.74%	78.25%	76.86%	75.76%	N/A	**-2.03%**	77.61%
Investment-Deposit ratio	30.14%	30.81%	30.32%	29.93%	29.87%	29.79%	N/A	**-0.31%**	29.94%
Macroeconomics	**Jun-13**	**Jul-13**	**Aug-13**	**Sep-13**	**Oct-13**	**Nov-13**	**Dec-13**	**FY14 YTD**	**Dec-12**
IIP (Growth)	-1.85%	2.57%	0.43%	1.96%	-1.75%	N/A	N/A	**0.00%**	-0.55%
Inflation (WPI)	5.16%	5.85%	6.99%	7.05%	7.00%	7.52%	N/A	**6.70%**	7.31%
Inflation (CPI)	9.87%	9.64%	9.52%	9.84%	10.09%	11.24%	N/A	**8.89%**	10.56%
FII Flow (INR Bn)	-110.27	-60.86	-48.59	130.58	157.06	81.16	83.17	**497.59**	250.88
FDI Flows (INR Bn)	84.32	99.03	88.99	185.85	N/A	N/A	N/A	**674.16**	60.12

N/A- Data Not Available

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