



RBI Monetary Policy

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In its second **bi-monthly monetary policy statement for 2019-20**, the Reserve Bank India's **Monetary Policy Committee (MPC)** has unanimously decided to **cut the policy repo rate by 25 basis points** and change the **monetary policy stance from 'neutral' to 'accommodative'**.

This is the **third time successively that the six-member MPC has decided on a 25-basis points rate cut**. The last time the RBI had to cut rates three times in a row was **in 2013**.

Highlights

- Following the MPC decision, the **repo rate now stands at 5.75% against 6% earlier**.
- The reverse repo rate under the **LAF (liquidity adjustment facility) has been adjusted to 5.50%**, and the **marginal standing facility (MSF) rate and the bank rate to 6.0%**.
- The GDP growth for 2019-20 has been **revised downwards from 7.2% in the April policy to 7%**.

Reasons for Rate Cut

- To **spur economic activity**, which decelerated sharply in the January-March quarter.

Weakening of growth, as reflected in a further **widening of the output gap (the difference between the actual output of an economy and its potential output) compared to the April 2019 policy**.

- The Rate cut will ensure that **adequate liquidity is available in the system** for all productive purposes. Moreover, an accommodative stance basically **means that rate increase is off the table.**

This will be **more comforting for the market** than just a rate cut, especially in light of the slowdown.

- The **headline inflation trajectory remains below the target** mandated to the MPC even after taking into account the expected transmission of the past two policy rate cuts.

Hence, **there is scope for the MPC to accommodate growth concerns** by supporting efforts to boost aggregate demand, and in particular, reinvigorate private investment activity, while remaining consistent with its flexible inflation targeting mandate.

- This **transmission (of repo rate cut into lending rates)** will naturally find its impact on consumer loans, consumer durables loans, two-wheeler loans, etc.
- Additionally, the RBI said that it has decided to **do away with charges levied on Real-time gross settlement (RTGS) and National Electronic Funds Transfer (NEFT) transactions**, banks will be required to pass this benefit to their customers.

The RBI has also decided to set up a committee involving all stakeholders, under the chairmanship of CEO Indian Banks' Association (IBA), to examine the entire gamut of ATM charges and fees.