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SYNOPSIS OF RBI ANNUAL MONETARY POLICY: 2010-11

In Line with Street Expectations...

RBI came out with its annual monetary policy for 2010-11 which was more or less in line with market expectations. **RBI hiked repo, reverse repo and CRR by 25 bps each.** The policy rates are with immediate effect, while the CRR hike will be effective from April 24. **The increase in CRR is expected to absorb about Rs 12500cr from the system**

Key highlights of the RBI Annual Monetary Policy for 2010-11:

❖ MONETARY MEASURES

1. **Repo Rate** hiked from 5.0% to 5.25% (with immediate effect).
2. **Reverse Repo Rate** hiked from 3.5% to 3.75% (with immediate effect).
3. **Cash Reserve Ratio** hiked from 5.75% to 6.0% (effective from April 24). *As a result of the hike in CRR, Rs. 12500cr (approx.) of excess liquidity will be absorbed from the system.*
4. **Bank Rate** unchanged at 6.0%.
5. **Statutory Liquidity Ratio** unchanged at 25%.

❖ OUTLOOK AND PROJECTIONS

✚ GDP Growth Projection

- RBI placed its GDP growth projection for 2010-11 at 8.0% with the assumption of a normal monsoon and good performance of the industrial and services sectors.

✚ Inflation Projection

- Keeping in view domestic demand-supply balance and the global trend in commodity prices, the baseline projection for WPI inflation for end-March 2011 is placed at 5.5%.



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✚ Monetary Projection

- The projection of money supply growth for 2010-11 is placed at 17%.
- Consistent with this, aggregate deposits of Scheduled Commercial banks (SCBs) are projected to grow by 18%.
- The growth in non-food credit of SCBs is placed at 20%.

❖ OTHER IMPORTANT MEASURES

- Introduction of a reporting platform for all secondary market transactions in Certificate of Deposits (CDs) and Corporate Papers (CPs)
- FIMMDA has been requested to start work on developing a platform for CDs and CPs similar to its existing platform for corporate bonds.
- To allow banks to classify their investments in non-SLR bonds issued by companies engaged in infrastructure activities and having a minimum residual maturity of seven years under the held to maturity (HTM) category
- The much awaited paper on bank licenses for the private companies will be placed on RBI's website by end-July 2010.
- By end of June, the bank proposes to prepare the draft for Credit Default Swaps (CDS) introduction. Around the same time, it will finalise OTC forex derivatives norms.

The hike in policy rates and CRR is broadly in line with expectations. The well-balanced measures taken by the RBI is aimed at controlling inflation and promoting sustainable growth. But it considers tempering of liquidity equally important.

There are speculations of the lending getting more expensive but the system still possess a lot of liquidity and April-June quarter is a lean period for credit off takes and hence the interest rates should not move sharply on an upward trend.

CONCLUSION

RBI has given indications to act on rates again if Inflation will not curtail by the current rate hike. Consumer finance loans may rise marginally but it will not affect much of the growth, as demand for consumer goods is very strong and may not be impacted by a 25 basis point hike in key policy rates. Central bank has remained cautious in increasing rates to ensure that the growth is not hampered while checking inflationary pressures.



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