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INDIA

India Economics

Monetary Policy: Rates Unchanged; Growth Back in Focus

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- RBI leaves rates unchanged for now: The RBI has left all interest rates...
Stance of the Policy – Growth back in the picture: Interestingly, the stance of the policy appears to have reverted from reinforcing just price stability...
Managing Capital Flows: With forex reserves crossing US\$200bn, the RBI as expected announced a number of measures pertaining to capital flows:
1. Reduction in interest rates on NRI deposits: In a bid to reduce inflows from Non-Resident Indian Deposits...
2. Initiatives to encourage outflows: Rather than imposing draconian measures on external commercial borrowings, the RBI announced measures to encourage outflows...

Note Released: 24-Apr-07

Policy measures to encourage capital outflows

Table with 2 columns: Instrument, Measures. Rows include Overseas Investment Limit, Portfolio Investments, Mutual Funds Investments, External Commercial Borrowings (ECBs), and Remittances for Individuals.

Source: RBI

- RBI's Macro Outlook for FY08: While its GDP estimate of 8.5% appears conservative relative to our 9.3% estimate, what is positive is that the RBI has raised its money supply and loan growth estimates for FY08.

1. The Reverse Repo rate (6.0%) is the rate at which RBI absorbs liquidity from the system, while the Repo Rate (7.75%) is the rate at which it injects liquidity into the system.

2 To provide a brief recap, NRI Deposits are of two types- Foreign Currency deposits (FCNR) and rupee accounts (NRE).

Other measures

- ▶ **Measures towards inclusive growth:** To ensure that the poorer sections of society are not left out, the RBI has reduced risk weights on loans up to Rs0.1mn against gold and silver and announced relief measures for distressed farmers
- ▶ **To encourage mass housing,** the RBI has reduced risk weights on residential housing loans up to Rs2m from 75% to 50%.
- ▶ **Expansion of Hedging Facilities:** To enable domestic producers to hedge price risk on domestic purchases, the RBI has permitted domestic producers/users to hedge their price risk on aluminium, copper, lead, nickel and zinc in international commodity exchanges to take advantage of the depth and liquidity in these exchanges. In addition it has also permitted users of aviation turbine fuel to hedge their economic exposures in international commodity exchanges.
- ▶ **Repo Market widened to include corporate bonds:** In a bid to improve price discovery for corporate bonds, and as part of the move toward establishing a reporting platform for corporate bonds, the RBI has stated that the repo market would be widened to include corporate bonds once trading platforms stabilize and robust clearing and settlement systems are established.
- ▶ **Introduction of Credit Default Swaps:** Given that Basel II norms are now being implemented and risk management systems have strengthened the RBI has proposed to permit banks and primary dealers to transact in single-entity Credit Default Swaps; for which guidelines would be introduced by May 15, 2007.

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