

MONETARY POLICY PREVIEW: Continuing the Baby Steps

A 25 bps hike in the repo and reverse repo rates is expected

- In continuation with the objective of bringing the interest rates back to normalcy levels, RBI will continue to withdraw the accommodative policy stance.
- A CRR hike at this point in time is not expected owing to the recent liquidity crunch which has reinitiated the repo transactions as well as increased the spread between the reverse repo rates and the call money rates

KEY INTEREST RATES

	Curr.	Exp.
Repo	5.50	5.75
Reverse Repo	4.00	4.25
CRR	6.00	6.00

Source CMIE, Anagram Research

LIQUIDITY CONDITIONS

- **Trend Reversal in the LAF transactions:**
Repo transactions increased to Rs. 541billion for the week ended 16-July 2010 as against zero repo transactions in the previous months
- **Spread between reverse repo rates and call money rates has increased:**
Call money rates are currently around the repo rate indicating an excess of demand over supply for funds in the interbank money market. For the week ended 17-July 2010, the call rate averaged around 5.49%

KEY LIQUIDITY INDICATORS (Weekly Data)

	16-July	16-Apr
Repo Transactions (Rs. Bn)	541.01	0
Reverse Repo Transactions (Rs. Bn.)	2.97	521.28
Net LAF (Rs. bn)	538.04	-521.28
Repo Rate (%)	5.50	5.00
Reverse Repo Rate (%)	4.00	3.50
Call Money Borrowing rate (%)	5.49	3.34

Source CMIE

CREDIT CONDITIONS

- **Steady growth in the non-food credit growth:**
For the week ended 3rd July 2010, non-food credit growth increased by 22.28%. The recent trend indicates a healthy revival in the credit demand in the economy
- **Improvement in the Credit-Deposit Ratio**
The CD ratio also moved marginally upwards to 73.4 % (3- Jul) as compared to 71.5% (10-Apr) on account of improvement in deposit mobilization

KEY CREDIT INDICATORS (Weekly Data)

	3-July	10-Apr
Credit Growth		
Non-Food Credit Growth	22.28	17.29
Food-Credit Growth	-5.59	2.99
Credit-Deposit Ratio	73.44	71.55

Source CMIE

Contd..

ECONOMIC CONDITIONS

➤ Inflationary Pressures remain firm:

Inflation in the economy has remained about 10% for close to five months now which causes significant concern. Moreover price pressures are no longer limited to the food prices which further adds to the inflation woes in the economy

➤ Industrial Activity is consolidating:

The index of industrial decelerated sharply in the last month compared to the earlier highs in the previous months. However the industrial recovery in the country is at a sustainable and healthy growth level and does not cause any concern in the economy

KEY ECONOMIC INDICATORS

	YoY
Wholesale Price Index (Jun)	10.55%
Index of Industrial Production (May)	11.52%
Exports (Jun)	30.40%
Imports (Jun)	34.00%
M3 Growth (Jun)	14.50%

Source CMIE

For Further Details

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