FICCI's Reaction to RBI's Second Quarter Monetary Policy Review

NEW DELHI, October 29, 2013: Reacting to the second quarter monetary policy review and decisions announced by RBI**, Dr. A Didar Singh, Secretary General, FICCI** said "*This is a continuation of the policy moves from the previous review. By increasing the repo rate by 25 basis points and reducing the marginal standing facility rate by the same amount, RBI is signalling that it would continue with its assault on inflation even as it unwinds some of the exceptional monetary policy measures that were taken earlier with a view to bring stability in the exchange market*."

While we will wait to see how banks react to the announcements made today, we feel that there could be an increase in lending rates going ahead. In fact, RBI has also mentioned that to mitigate the mismatch between supply of and demand for funds, banks will have to step up efforts to mobilise deposits. In such a scenario, one could well see an increase in both the deposit and lending rates.

"*Given the slowdown in economic growth, weakening pace of investment activity and downswing in consumption, we were hoping that the RBI would steer focus towards supporting growth that is so essential for employment generation in the economy. However, this was not to be the case, and industry is certainly disappointed over the increase in repo rate. The kind of inflation we are witnessing in India is more of a supply side phenomenon. While raising interest rates would have little impact on such inflation, it will certainly penalise Indian industry that is already in the midst of a slowdown"*, **said Dr. Singh.**

Amongst other announcements, we have taken note of RBIs decision to launch Inflation Indexed National Savings Securities by the end of this year. FICCI has been suggesting introduction of such instruments and these should give investors an alternative to gold as an investment avenue. Further, RBIs announcement to allow banks to offer partial credit enhancements to corporate bonds should boost the corporate bond market in India and strengthen an alternate avenue for companies to raise financial resources.

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