Brickwork Ratings expects further rate cuts in FY20 in RBI Monetary Policy; Slow growth rate and benign inflation will be the basis of the expectation

Brickwork Ratings, 04 April 2019, Mumbai

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) reduced the key policy repo rate by 25 bps to 6%; which is a second consecutive cut in policy rate. The rate cut and stance both are in line with BWR expectations.

Brickwork Ratings expects the MPC to cut the repo rate by additional 50 bps in the FY20.

Brickwork Ratings (BWR) expects the MPC to change the stance to “ accommodative” from “neutral” in FY20 on the back of benign US Fed policy stance, weakening global growth and a softening domestic CPI inflation.

The MPC release noted that the domestic economy is still facing challenges. However, Gross Fixed Capital Formation (GFCF) is a silver lining with double digit growth for the fifth consecutive quarter in Q3 2018-19 at 33.1% (GFCF to GDP ratio) . Also, a strong prospect of a stable growth government at the centre after the general elections could contribute the prospects of higher growth rate.

"MPC outcome is on our expected lines. However, going forward, we could see a reduction in the key policy rate by another 50 basis points in this fiscal year subject to benign inflation trajectory to continue on near term, said AP Kamath, Senior Director - Ratings, Brickwork Ratings. "On the inflation front, the agency sees softer prints to continue for near-term, with an expectation of retail inflation to be around 2.50-3.00% during the first half of FY20," Kamath added.

Commenting on the announcement to form Committee/Task Force for the development of housing finance securitization market and secondary market for corporate loans, MSR Manjunatha, Chief Ratings Officer, Brickwork Ratings said, "These efforts to adopt the international best practices for securitization of mortgage backed loans and downselling of corporate loans in secondary market shall create liquidity for banks & Housing Finance Companies and a good opportunity for investors to deploy funds. This shall also help to manage credit and ALM risk for the banks and housing finance companies."

The agency also believes that the clarity with the release of new circular by Central Bank in relation to manage stressed assets by banks shall provide a relief to the banks and borrowers.

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