प्रेस प्रकाशनी PRESS RELEASE

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Statement by Dr. Raghuram G Rajan, Governor on Monetary Policy

Since July 2014, inflationary pressures (measured by changes in the consumer price index) have been easing. The path of inflation, while below the expected trajectory, has been consistent with the assessment of the balance of risks in the Reserve Bank's bi-monthly monetary policy statements. To some extent, lower than expected inflation has been enabled by the sharper than expected decline in prices of vegetables and fruits since September, ebbing price pressures in respect of cereals and the large fall in international commodity prices, particularly crude oil. Crude prices, barring geo-political shocks, are expected to remain low over the year. Weak demand conditions have also moderated inflation excluding food and fuel, especially in the reading for December. Finally, the government has reiterated its commitment to adhering to its fiscal deficit target.

These factors have significantly reduced the momentum of inflation, compensating for the widely anticipated ending of favourable base effects. Households' inflation expectations have adapted, and both near-term and longer-term inflation expectations have eased to single digits for the first time since September 2009. Inflation outcomes have fallen significantly below the 8 per cent targeted by January 2015. On current policy settings, inflation is likely to be below 6 per cent by January 2016.

These developments have provided headroom for a shift in the monetary policy stance. It may be recalled that the fifth bi-monthly monetary policy statement of December had stated that "if the current inflation momentum and changes in inflation expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year, including outside the policy review cycle". In its public interactions, the RBI had committed to initiate the process of monetary easing as soon as data indicated that medium term inflationary targets would be met. Keeping this commitment in mind, it has been decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 8.0 per cent to 7.75 per cent with immediate effect;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF stands adjusted to 6.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 8.75 per cent with immediate effect.

The fifth bi-monthly monetary policy statement also stated that once the monetary policy stance shifts, subsequent policy actions will be consistent with this stance. Key to further easing are data that confirm continuing disinflationary pressures. Also critical would be sustained high quality fiscal consolidation as well as steps to overcome supply constraints and assure availability of key inputs such as power, land, minerals and infrastructure. The latter would be needed to ensure that potential output rises above the projected pick-up in growth in coming quarters so as to contain inflation.

We take this opportunity to convey our best wishes to all for *Makar Sankranti*, *Pongal* and *Uttarayana*.

Alpana Killawala
Principal Chief General Manager

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