# Economists pencil in a rate cut in April policy

ANUP ROY
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The minutes of the monetary policy committee (MPC) meeting indicate that there would be more rate cuts in the coming days and the dovish stance would continue for long, economists say.

Disseminating the minutes, released on Thursday, economists are keying in another 25 basis point cut in the April policy. MPC member Ravindra Dholakia had suggested cuts of 50-60 basis points to spur growth, the minutes showed.

The members believe that inflation would remain low in the next 12 months. Consumers and households are also keying in low prices in the coming days, opening up space for the central bank to cut rates.

"Softer-than-expected January CPI print of 2.05 per cent, MPC's downward revision of 60-80 bps to the MPC's H1FY20 (first half of 2019-20) inflation projections to 3.2-3.4 per cent and the opening up of the output gap have improved the probability of multiple rate cuts in 2019," Kotak Mahindra Bank said in a report.

According to HSBC, in April, there could be a 25 basis points rate cut as inflation would likely remain "well under" 4 per cent mark in the next one year.

The decision was taken by the RBI in its last bi-monthly monetary policy

The issues affecting the core inflation, such as health and education prices, GST, and crude prices could abate over the next 12 months. "Once core inflation stabilises from 6 per cent now to the 4.5-5 per cent range, and food inflation begins to normalise, we expect headline inflation to converge gradually towards core, resting at the 4 per cent target one year from now," HSBC said.

"We fully agree with RBI Governor (Shaktikanta) Das that the time is opportune to seize the initiative and create a congenial environment for growth...," wrote Bank of America Merrill Lynch.

"Lending rates should ease 50 basis points reversing the 30bp hike of 2018, on RBI rate cuts, RBI OMO as well as bank recapitalisation," Indranil Sengupta of Bank of America wrote.

The transmission of policy rate cuts, though, would be dependent on liquidity support through secondary market bond purchases under the open market operations (OMO), he said.

Gaurav Kapur, chief economist of IndusInd Bank, wrote that the minutes suggest that chances of rate cut in April improve if core inflation continues to ease, growth falling below the projected 7.2 per cent for FY19 (and this may require cut in cash reserve ratio too), and if global trade slowdown exacerbates, led by China and Euro-zone. A global slowdown would soften oil prices and open up room for cuts.

"Weaker exports and softer oil prices would increase the need for some more monetary easing," Kapur said.

# RBI creates new category of NBFCs by merging existing 3

SUBRATA PANDA
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The Reserve Bank of India (RBI) has merged three categories of NBFCs — asset finance, loan companies and investment companies — into one new category called NBFC-investment and credit company (NBFC-ICC) to ease operational flexibility of these institutions.

In its bid to replace entity-based regulations with activity-based ones, the RBI in its last bi-monthly monetary policy had decided to harmonise major categories of non-banking financial companies (NBFCs) engaged in credit intermediation into a single category.

Also, the central bank has capped the investment limit of deposit-taking NBFC–ICC in any other company to 20 per cent of its owned fund. However, no limit has been assigned as to how much this category of NBFC can invest in its own subsidiary. "A deposit-taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund," the RBI said in a statement.

Moreover, this new category will attract risk weight from the banks according to the ratings assigned to it by the rating agencies registered with Securities and Exchange Board of India and accredited by RBI. At present, all NBFCs attract a uniform risk weight of 100 per cent on their bank exposures. Only, Asset Finance Companies (AFCs), Infrastructure Finance Companies (NBFCs-IFC), and Infrastructure Development Funds (NBFCs-IDF) had the privilege of attracting risk weight in accordance with the ratings assigned by rating agencies.

The relaxation in risk weights is expected to make credit cheaper for better-rated NBFCs. The leeway means banks will be required to hold less capital against loans to some of the better-performing NBFCs. Similarly, the banks will have to set aside more capital if they are lending to NBFCs that do not have high ratings. Experts believe the harmonisation will provide operational ease for both the regulator and the NBFCs but will not have a larger impact on the sector.