

## India: A central bank surprise

The Reserve Bank of India's on-hold policy decision comes as the central bank cut its growth outlook for the current fiscal year, the fifth cut so far, and also raised its inflation forecast. We expect one more 25 basis point rate cut in the current cycle



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**5.15%** RBI repurchase rate

No change today

Higher than expected

### Stable policy

Confounding the broad consensus of one more 25 basis point rate cut, and our more bearish 40 basis point cut forecast, the Reserve Bank of India decided to leave the repurchase and reverse repurchase rates unchanged at 5.15% and 4.90%, respectively. There was also no change to the 4.0% cash reserve ratio for banks.

It was a unanimous decision by all six policy committee members. The [statement](#) noted that the

policy stance would remain accommodative “as long as it is necessary to revive growth while ensuring that inflation remains within the target”. This is despite continued inflation risks ahead from higher food prices going into 2020 amid rising inflation expectations. The RBI now sees inflation rising above 5% in the second half of the current fiscal year (FY2019 started in April), against an earlier forecast in October of under 4% inflation. It also cut its growth forecast for this year to 5.0% from 6.1%, the fifth cut so far.

## End of easing? Not yet..

The policy pause comes after 135 basis points of rate cuts earlier in the year did little to revive the economy while rising inflation has also started to reduce the policy space.

While inflation isn't going to be a hurdle to further RBI easing if needed, we do believe that the downward growth cycle has reached a trough. However, against a backdrop of rapid easing earlier this year and persistent downside growth risks ahead, we think the easing cycle might have a bit further to run. We maintain our forecast of a 25bp rate cut at the February 2020 meeting, which we expect to be the last cut in this cycle.

## Good for INR, but not great

The RBI's decision was a disappointment for the markets which, we think, had priced in a 25bp rate cut. But it's positive for the Indian rupee (INR), Asia's underperforming currency this year, partly due to aggressive rate cuts.

The INR lost some ground today in trading until the RBI's decision. Its reaction to the decision was positive, though not enough to offset weakness before the decision. We don't think the worst is over for the beleaguered currency, not least from a policy perspective, and maintain our view of USD/INR rate at 73.00 by end-March 2020.