

Review of Monetary Policy (16 June 2011)

Changes in Key Interest Rates

RBI increased repo rate by 25 bps under Liquidity Adjustment Factor (LAF) from 7.25 percent to 7.5 percent. Consequent to the increase in repo rate, reverse repo rate will be automatically adjusted to 6.5 percent from 6.25 percent. Meanwhile CRR, SLR and Bank Rate have been retained to their existing levels.

Policy Rate	Change	Effective Rate
CRR	Unchanged	6.0%
Repo rate	+25 basis point	7.5%
Reverse Repo rate	+25 basis point	6.5%
Bank rate	Unchanged	6.0%

As per RBI the expected outcomes of the actions are:

- To control the demand side inflationary pressures and to minimize risk to growth.
- To sustain growth in the medium term and to maintain an interest rate regime consistent with price, output and financial stability.
- As per RBI, inflation persists at uncomfortable levels. We believe that if inflation does not show any signs of moderation in the near term, RBI will continue with its rate hike.
- As per RBI although some moderation can be seen in some of the interest rate sensitive sector like auto, no major signs of slowdown in the economy can be seen.
- Domestic growth outlook remains unchanged although global macro economic developments can pose risk to domestic growth.
- The increase in interest rates was in line with market expectation. However, the tone of RBI policy sounded very hawkish and signaled continued tightening of interest rates with inflation concerns outweighing concerns over moderating growth. We believe that these are the signs which suggest that there can be another rate hike of around 25 bps in the next RBI policy scheduled to be on 26th July 2011.
- Although the immediate impact of the increase in rate hike has been factored in by the markets and the banking stocks have showed a positive movement, the future of banking stocks would depend on how much they are able to pass on the increasing cost to the customers. We believe that the banking stocks will be impacted negatively over the medium term and also the other interest sensitive stocks like auto will witness some pressure over the medium term.

Silky Jain –Research Analyst
Tel.: 022 3926 8178
Email: silky.jain@nirmalbang.com

NOTE

Disclaimer

This Document has been prepared by Nirmal Bang Research (Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.