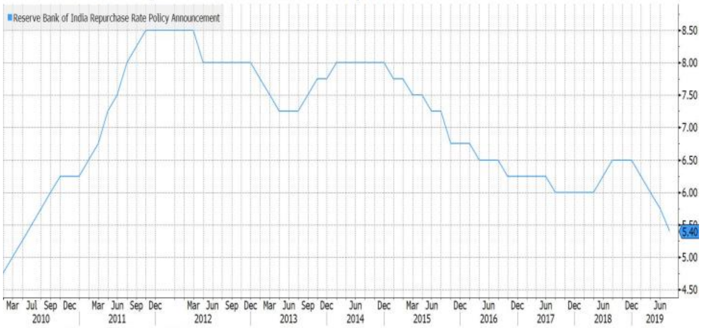
Highlights

Surprise Move

India lowered rates by an unconventional 35 basis points



Source: Reserve Bank of India

India's Reserve Bank lowered its repurchase benchmark rate to the lowest rate since 2010 earlier this month in a bid to revive India's flagging economy. The unconventional move to reduce the repo rate by 35 basis points to 5.4% was the RBI's fourth reduction this year to brace the economy against the headwinds from an escalating China-US trade war, rate cuts by the Feds whilst lending support to the domestic economy. It also cut the GDP outlook to 6.9% from its earlier forecast of 7% in June as it expects inflation to stay benign at 3.1% in the fiscal second quarter. The RBI said the inflation outlook was benign and the recent catch-up in the progress of monsoon and winter crop sowing has eased concerns. The RBI has been the most aggressive in Asia in cutting rates this year. Meeting minutes showed that all of the MPC members voted unanimously to maintain an accommodative monetary policy stance and to reduce the repo rate. (Source: Bloomberg, RBI)

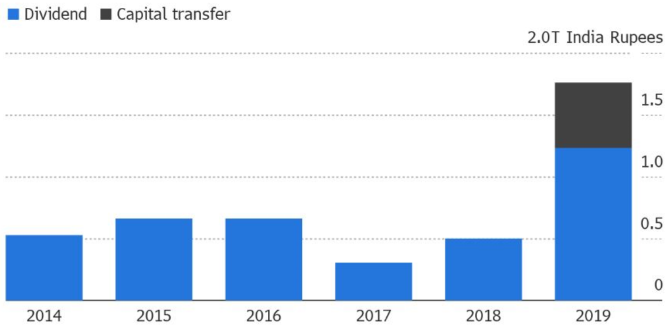
Domestic investors in Indian equity mutual funds increased their holdings in July, unfazed by the worst July in 17 years. Stock plans received inflows of 81.1 billion rupees (approx. USD 1.2 billion), an increase from 76.6 billion rupees (approx. USD 1.13 billion) that the funds received in June - as local fund managers bought the dip. The flows will persist as equities remain an attractive option amid expectations of a further reduction in bank deposit rates. YTD, FIIs and domestic MFs have bought USD 7 billion and USD 6 billion in equities.

(Source: Bloomberg, Goldman Sachs Research)

India's central bank took steps to alleviate a credit crunch at shadow banks and relaxed rules for lending to consumers as part of measures to boost the slowing economy. The RBI increased the exposure limit for banks to a single non-banking finance company to 20% of Tier 1 capital from 15% before. It also reduced the risk weight on consumer credit excluding card receivables to 100% from about 125%. Bank loans to NBFCs for agriculture, small businesses and home mortgages have been classified as priority-sector lending, in a bid to ensure credit flows to those key contributors to economic growth and employment. (Source: Bloomberg)

Cash Windfall

India's central bank approves record transfer to government



Source: Reserve Bank of India
Note: RBI dividend of 1.23 trillion rupees in 2019 includes 280 billion rupees already transferred in February

Bloomberg

The RBI agreed to transfer a surplus of INR 1.76 trillion (approx. USD 24.5 billion) to the government in its board meeting on 26th August following the recommendations made by the Bimal Jalan Committee.

Almost 70% of the disbursement -- which was approved by the RBI on Monday – was derived from the income the central bank earned on its investments, gains from changes to accounting of its foreign exchange policy and the fees it earned from printing notes and minting coins. The rest, about 526 billion rupees, comes from its surplus capital. In its report the Jalan Committee recommended that the RBI's economic capital -- made up of realized equity and revaluation balances -- should lie within the range of 20% to 24.5% of its balance sheet. It prescribed maintaining the realized equity -- or contingency buffer -- between 5.5% to 6.5%. The RBI board accepted the recommendations, which took its pay-out to a record. The transfer should offset any revenue shortfall from lower tax buoyancy amid slower growth this year, allowing more room to boost spending. It will also make it easier for the government to meet its budget deficit target of 3.3% of GDP for fiscal 2020.

(Source: Goldman Sachs Research, RBI, Bloomberg)