

### **RBI's Monetary Policy Review– likely impact on MSMEs**

The following is an exclusive review for FISME members of the RBI's review of Monetary Policy announced on July 31, 2012. Rajesh Dubey, Advisor (Finance), FISME is the author of this review.

The first quarter (Q1-2012-13) review of RBI's monetary policy comes in the backdrop of:

- Synchronised slowdown in global economy
- Uncertainty in commodity prices
- Strain in Euro area
- Declining exports for India given weak global economic scenario. Positive impact on account of rupee depreciation on exports yet to be seen
- Slowed capital inflows into India and decline in investment activities
- Increasing costs for the manufacturing sector particularly on account of inflationary pressure on wages. However, the non-food credit growth rate has been at 17.7% as against targeted level of 17%.
- Continuing large Current Account Deficit (4.2% of GDP) and Fiscal Deficit
- Declining GDP growth rate
- Continuing high inflation rate at above 7% (headline WPI)

RBI has been active through OMO, injecting about Rs 86,000 crore liquidity by purchase of securities. This has also resulted in easing of yield on 10-year GOI paper to 8.11%. This has also resulted in decline in the modal base rate of banks by 25 basis points.

The RBI has retained all its monetary rates at the same level as in April 2012, except that the Statutory Liquidity ratio has been lowered to 23% (as against 24% earlier) w.e.f. August 11, 2012. This measure should provide RBI with additional room for OMO and infusion of liquidity should the need arise for:

- a) Increased capital and investment formation.
- b) Ease liquidity pressure and at the same time give a signal to the market about the inflationary pressures on the economy.

In the above scenario, the availability of finance should not really pose a challenge for enterprises which are able to manage reasonably well the cost and pricing pressures. However, the policy statement wouldn't create a significant impact on banks belonging to the comfortable zone of holding securities in excess of the stipulated SLR.