

MONSOON CLOUDS FUTURE RATE CUTS

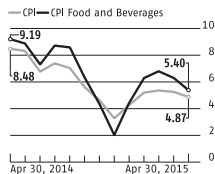
The Reserve Bank of India (RBI) delivered its third interest rate cut since January, which brought down the repo rate to 7.25 per cent — from a high of 8 per cent in December 2014. Here's why RBI decided to cut the repo rate by 25 basis points on Tuesday:

INFLATION UNDER CONTROL

- Retail inflation decelerated for the second month in a row in April
- Food inflation softened to a four-month low, defying the impact of unseasonal rain

INFLATION

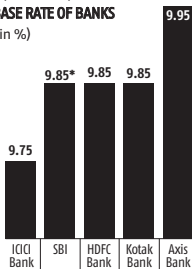
(since April 2014) (y-o-y; in %)



- Banks have started passing on previous repo rate cuts

BASE RATE OF BANKS

(in %)



*SBI base rate will be 9.70 wef June 8

- Muted increase in administered prices
- Expectation of Fed rate hike pushed back



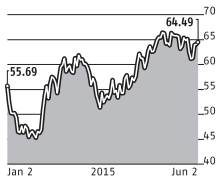
ILLUSTRATION: BINAY SINHA

WHAT THE FUTURE HOLDS...

Three risk factors that could push inflation after the favourable base effect diminishes after August

- Below normal southwest monsoon: IMD predicts monsoon to be 12% below long-period average
- Firming up of global crude oil prices

BRENT CRUDE OIL (since Jan) \$/bbl



- Volatility in external environment could impact domestic prices

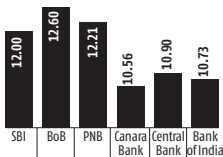
RBI'S PRESCRIPTION

- Astute food management needed to mitigate possible inflationary effects
- Beefing up public investment that can crowd in private investment
- Infuse capital in public sector banks that manage stress well to ensure adequate credit flows

CAPITAL ADEQUACY RATIO

As of March 2015

(Basel-III)



Source Bloomberg
Compiled by BS Research Bureau