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FINANCE MINISTER: GOVERNMENT WELCOMES THE RESERVE BANK OF INDIA'S DECISION TO REDUCE THE REPO RATE TO 6.75 PERCENT FROM 7.25 PERCENT; RATE CUT, COMBINED WITH ACTIONS TAKEN AND PLANNED BY THE GOVERNMENT, WILL HELP BOOST CONFIDENCE AND INVESTMENT, AND HELP REALIZE THE ECONOMY'S MEDIUM-TERM POTENTIAL GROWTH RATE

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The Union Finance Minister Shri Arun Jaitley said that the Government welcomes the Reserve Bank of India (RBI)'s decision to reduce the repo rate to 6.75 percent from 7.25 percent. The Finance Minister was responding to the Monetary Policy announcement made by the Reserve Bank of India today.

The Finance Minister said that constant vigilance is warranted on the inflation front, this action signals that inflationary pressures have moderated significantly and are within the RBI's comfort zone. He said that the Government is committed to meet its fiscal deficit target to consolidate the gains achieved in reducing the inflation.

The Finance Minister Shri Jaitley further said that this action also signals that the RBI is able to provide policy support to the real economy and help its recovery. He said that the Government looks forward to the transmission of these cuts to the rest of the economy and will work to facilitate this transmission, including by reviewing the framework of small savings. Shri Jaitley said that the rate cut, combined with actions taken and planned by the Government, will help boost confidence and investment, and help realize the economy's medium-term potential growth rate.

The Finance Minister Shri Jaitley further said that Indian corporates would now be able to raise External Commercial Borrowings (ECB) through rupee denominated offshore bonds with no end use restrictions. He concluded that this would provide additional source of raising resources which would be fully hedged as they are denominated in rupees.

Shri Shaktikanta Das, Secretary, Department of Economic Affairs (DEA), Ministry of Finance said that the Medium Term Framework for FPI investment in Government Securities would bring in predictability for foreign investors. He said that the limits would be increased from existing 3.8% to 5% of the outstanding stock of Government Securities by March 2018 implying increase by about Rs 1,20,000 crore from the existing limit of Rs 1,53,500 crore. Shri Das said that in the current financial year, Rs.26,000crore would flow in the Government Securities. He said that the increase in FPI limits would bring in greater foreign participation with predictability and would result in higher liquidity in the Indian Government Securities market. He said that for State Development Loans, FPI limits have been fixed for the first time at 2% of the outstanding stock that would amount to about Rs 50,000 crore by March 2018 and Rs.7,000 crore would flow in State Government Securities during the Current Financial Year. This would bring higher liquidity in these State Government bonds.

The Chief Economic Adviser Dr Arvind Subramanian said that the transmission of rate cut is partly by the banks and partly by the market rates coming down. He reiterated that the Government looks forward to the transmission of these cuts to the rest of the economy and will work to facilitate this transmission, including by reviewing the framework of small savings. He said that the Government would review the GDP rate target for the current Financial year after the figures of second quarter are available.

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