

April 24, 2007

### RBI Annual Policy Statement for the year 2007 – 08

RBI Governor Dr. Y.V.Reddy presented the Annual Policy Statement for the year 2007-08. The following are the key highlights:

#### Key Highlights

1. Bank Rate, Reverse Repo Rate & Repo Rate remain unchanged.
2. Beginning April 28, Scheduled Commercial Banks would be required to maintain CRR of 6.50%
3. GDP forecast for FY08 has been estimated to be 8.50%.
4. Inflation to be contained close to 5% during 2007- 08. However the endeavor would be to keep inflation expectations in the range of 4.0% - 4.5% in the medium term.
5. M3 growth to be contained at around 17% - 17.5% and non food credit growth projected to be around 24% - 25% during FY08.
6. Risk weightage on residential housing loans to individuals upto Rs. 20 lakhs to be reduced from 75% to 50% as a temporary measure.
7. Banks & Primary Dealers permitted to begin transactions in single entity credit default swaps.
8. Interest Rate ceiling on FCNR(B) deposits reduced by 50 bps to Libor minus 75 bps with immediate effect and the interest rate ceiling on NR(E)RA deposits reduced by 50 bps to LIBOR/SWAP rates with immediate effect.

#### Overall Stance of the monetary policy

Keeping in mind the recent economic development and the outlook for inflation, the overall stance of monetary policy in the period ahead will be:

1. To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
2. To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
3. To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations and the growth momentum.

The RBI has been benevolent in announcing the Credit Policy, which is in contrast to market expectations. The policy has been less hawkish, paving way for economic growth and market development. RBI in its endeavor to keep inflationary expectations in the lower range has resorted to several measures of raising the limit on remittances abroad, thereby creating demand for dollars domestically.

Additionally, RBI had cited in the run up towards the Credit Policy, intensifying of demand side pressures in the form of rising inflation, high money and credit growth, and elevated asset prices along with supply side pressures in evidence from prices of primary articles, which would require the RBI to continue with its policy of active demand management of liquidity through open market operations (OMO) including the MSS, LAF, CRR & all policy instruments, in order to achieve its objective of price stability and economic growth.

### **Outlook**

The current RBI stance is in line with the trend adopted by major central banks globally, wherein the policy rates have been left unchanged indicating a higher integration with the global financial system. RBI has acknowledged the difficulty in controlling demand side inflation by increasing interest rates, as that is leading to a higher capital inflow, which reduces the efficacy of such a policy measure.

All in all, the policy has left the room open for rate changes depending on economic data, which shall keep RBI vigilant in terms of higher inflation, elevated asset/commodity prices, rising non food credit and its consequent impact on money supply growth. Inflation is expected to moderate by September '07 due to higher base effect. The monetary tightening measures adopted by RBI in recent past could moderate the credit and money supply growth rate in coming months. Bond prices are expected to gain in the absence of any hawkish stance. We expect RBI to keep interbank liquidity tight and the yield on 10-year sovereign bond is expected to move in the range of 7.80% - 8.25%.

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### **Risk Factors**

Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Schemes will be achieved.

### **Statutory**

Kotak Mahindra Mutual Fund has been established as a trust under the Indian Trusts Act, 1882, by Kotak Mahindra Bank Limited (liability Rs. NIL) with Kotak Mahindra Trustee Company Limited as the Trustee and with Kotak Mahindra Asset Management Company Limited as the Investment Manager.

**Before investing, please read the Offer Documents.**