

## RBI May Keep Policy Rate Unchanged on Dec 2

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Reserve Bank may keep policy rate unchanged in its upcoming monetary policy review on Tuesday even as the Finance Minister and industry clamoured for the rate cut to prop the economy after GDP growth slipped to 5.3 per cent in the second quarter of current fiscal.

At the same time, inflation has hit multi-year low making a case for the rate cut.

"The fact of matter is that all the parameters are indicating that there will be further fall in inflation. Between November and January with the base effect it might go up a little bit. But by March it will be well below whatever the glide path that is indicated by the RBI," SBI Chairperson Arundhati Bhattacharya said.

"RBI Governor has indicated that he will be data driven ... May be by the end of the fiscal (cut in the interest rate by RBI)," she added.

Asked if she expected a rate cut in RBI's bi-monthly policy on December 2, she said, "No".

United Bank of India Executive Director Deepak Narang said that RBI would wait for some more time before effecting rate cut to prop up growth.

"Although parameters are conducive for the rate cut but there is hardly any appetite for loan in the market. Rate reduction by 0.25 per cent is not going to generate significant demand in the market," he said.

"Therefore, I think the RBI Governor would maintain status on December 2," he said.

The Reserve Bank, which has been keeping rates at an elevated level citing high inflation, wants the rate of price rise to come down to 6 per cent by January 2016.

Poor showing by agriculture and manufacturing sector pulled down the country's economic growth rate to 5.3 per cent in the second quarter against 5.7 per cent in the April-June quarter of this year.

Inflation based on the Wholesale Price Index cooled to a 5-year low of 1.77 per cent in October driven by softening prices of fuel and food items. At the same time, retail inflation, based on Consumer Price Index, also eased to 5.52 per cent at end of October.

Finance Minister Arun Jaitley has also pitched for a cut in interest rate saying it will have positive impact on home and auto loans.

In an interview to *PTI* last week, Jaitley had expressed hope that RBI will move in the direction of making the cost of capital reasonable to help perk up economy.

On the other hand, Yes Bank CEO and Managing Director Rana Kapoor expects that the central bank may cut interest rate by 0.25 per cent.

"The RBI would indeed draw comfort from the recent pace of disinflation, and in my opinion announce a maiden cut of 25 basis point in the December 2014 policy review," Kapoor said.

Another comforting factor for RBI is that global prices of commodities have eased significantly. The crude oil price hit four year lows and are expected to drop further.

RBI's key repo rate at which it lends to banks for short period is at 8 per cent while the reverse repo rate is at 7 per cent. The cash reserve ratio is at 4 per cent.

However, analysts feel that the central bank would keep rate unchanged this week but may effect rate cut towards the end of current fiscal.

"I am a believer that India's current account deficit is under control and the Finance Minister will manage and control the fiscal deficit. Therefore, at some point of time in early 2015, there may be some room for RBI to move on downward interest rates," Kotak Mahindra Bank chief Uday Kotak said.

Morgan Stanley in a report said, "We believe that RBI is likely to keep policy rates on hold on December 2. We assign a very low probability to a rate cut in that meeting."

Domestic rating agency Care Ratings too concurred the view, saying Rajan will go for a status quo on rates at next week's policy review, even though inflation is trending down.

"While a rate cut would help to assuage sentiment, the RBI may choose to defer the decision for the next review," Care said in a note.

Morgan Stanley said the key thing to be watched in the policy would be the central bank's language regarding its comfort about achieving its inflation target according to its pre-guided glide path, and in turn, the implications of timing of the first rate cut.

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