

# Monetary Policy Today; Analysts Expect Rate Cut

by Shutapa Paul

**New Delhi:** In a bid to provide a stimulus to growth, the Reserve Bank of India (RBI) is expected to slash policy rates when it meets on Tuesday to review its monetary policy. Market sentiments suggest that the central bank will reduce repo rate, which stands at 7.75 per cent, by 25 basis points (bps). With core inflation dropping to 3.8 per cent in February and the government steadfast in its efforts to curb fiscal deficit, economists, bankers and

analysts have been expecting a rate cut. The RBI is also likely to lower its Cash Reserve Ratio (CRR) from 4 per cent to 3.75 per cent, a drop of 25 bps.

"With the Finance Minister (P Chidambaram) showing firmness in controlling fiscal deficit, RBI can proceed on the basis of the government not exercising extra pressure on liquidity and accordingly work on the basis of getting the best trade-off between growth



and inflation. A 25 bps cut in repo rate may be expected to support the government's own effort that will be a positive signal for the market. With the WPI inflation being below the 7% mark, this will still be justified despite the CPI inflation being high," D R Dogra, MD & CEO, Care Ratings and Research said.

High food inflation, however, remained a cause for concern for some analysts. "The building expectation

of RBI reducing the interest rate is seen on the back of core inflation to its 3-month low. But food inflation it is still on a higher side. The chances of a rate cut at the upcoming mid-quarter policy review still seems difficult even though we have seen positive data in recent times," said Abhishek Goenka, Founder & CEO, India Forex Advisors. Chidambaram, however, remained confident that RBI would address "the issue of liquidity". "I am sure he (RBI Governor D Subbarao) will address the issue

of liquidity and there will be a paragraph on liquidity in the policy," Chidambaram said after meeting PSU bank bosses on Monday.

State Bank of India Chairman Pratip Chaudhuri said that a rate cut of 0.50 per cent was needed. "We have requested 50 basis points in CRR and 0.50 per cent cut in repo. We have also sought an increase in export credit refinance which is currently 50 per cent of the Rupee credit. We have requested them to increase it to 100 per cent," Chaudhuri said.