RBI cuts CRR by 50 bps; interest rates unchanged

The Reserve Bank of India left interest rates on hold on Tuesday but cut the cash reserve ratio for banks by 50 basis points, a move that eases tight liquidity in the banking system and underscores a policy shift from fighting inflation to reviving growth.

With core inflation still sticky, the Reserve Bank of India as expected left its policy repo rate unchanged at 8.50 % for the second consecutive review after raising rates 13 times between March 2010 and October 2011, which made it one of the most hawkish central banks anywhere.

"The growth-inflation balance of the monetary policy stance has now shifted to growth, while at the same time ensuring that inflationary pressures remain contained," RBI Governor Duvvuri Subbarao said in his policy statement.

Expectations had grown in recent days that the RBI would cut the cash reserve ratio (CRR), the share of deposits banks must hold with the central bank.

Tuesday's cut lowers the CRR to 5.50 % from 6.00 %, where it had stood since April 2010, and releases 320 billion rupees ($6.4 billion) of liquidity into the banking system, the RBI said.

The RBI, which remains worried about persistently high core inflation, had recently indicated a reluctance to cut CRR by noting that it viewed the measures as not only a liquidity tool but a monetary policy signal.

Tuesday's CRR cut should be seen as a signal of easing intent, Subbarao said.

"The reduction can also be viewed as a reinforcement of the guidance that future rate actions will be towards lowering them," Subbarao said, adding that it was premature to cut the policy interest rate based on the current inflation outlook.

On Monday, Indian banks borrowed 1.42 trillion rupees from the RBI's repo window, more than double the 600 billion rupees that would indicate a liquidity deficit of 1 %. The RBI's guideline is for liquidity deficit or surplus within 1 % of aggregate deposits.

As expected, the RBI lowered its GDP growth forecast for the fiscal year that ends in March to 7 % from 7.6 %, and left its wholesale price index inflation target unchanged at 7 percent for the end of the fiscal year in March.

Asia's third-largest economy grew 8.5 %t in the previous fiscal year.

The RBI said it expected a "modest" recovery in growth in the fiscal year that starts in April, and said that while inflation may ease, price pressures persist.

"Upside risks to inflation arise from global crude oil prices, the lingering impact of rupee depreciation and slippage in the fiscal deficit," it said.

(Hindustan Times)