

RBI cuts repo rate by 25 bps, CRR unchanged at 4%

The Reserve Bank of India (RBI) in its Monetary Policy Statement for 2013-14 cut repo rate by 25 basis points. The Cash Reserve ratio (CRR) was maintained at 4%.

Most economists in an ET poll had already factored in a 25 basis points rate cut.

On Thursday, RBI said that the fiscal deficit target for the year could be under risk if investments do not accelerate to provide enough revenues to the government, and food subsidies could overshoot the target that appears unrealistic. Also, business and consumer confidence is still very low, RBI said.

Significantly, the report said the government might have to think about limiting external borrowings by companies, given the rising vulnerability on the external front, as the level of overseas debt is huge.

The silver lining in the otherwise dour outlook projected by the Reserve Bank's Macroeconomic and Monetary Developments for 2012-13 is inflationary expectations are just easing.

"Monetary policy would need to be calibrated recognising the very limited policy space available to ease further," said the report prepared by researchers at RBI. The governor's monetary policy action on Friday need not reflect the thoughts of the authors of the report.

"Monetary policy easing in 2012-13 has not succeeded in turning around investment," the report said. "The logjam associated with structural bottlenecks in the mining and infrastructure space persists and needs to be resolved first. Otherwise, the limited available space for monetary policy could get quickly used up without stimulating aggregate demand and real activity."

(Economic Times)