

# RBI likely to keep key rates unchanged

MUMBAI: Most bankers and economists expect the [Reserve Bank of India](#) to maintain key [policy rates](#) in its bimonthly policy meeting on June 3. There is also an expectation that the central bank will ease some exchange control regulations allowing Indians to remit more money out of the country.

"Given the upward threat to inflation under the uncertain monsoon, the [RBI](#) is likely to continue its inflation focus and interest rates are thereby forecast to remain stable during the year. In the event of inflation being reined in within RBI's comfort corridor, a 50 basis point cut in the repo rate can be expected in the best scenario. However, this, in turn, is expected only in the fourth quarter of FY15," said Madan Sabnavis, chief economist, Care Ratings.

Announcing the first bimonthly policy in April, RBI governor [Raghuram Rajan](#) had said that the central bank is targeting 8% inflation by January 2015. He also added that if inflation continues along the intended glide path, further policy tightening in the near term would not take place.

There were initial concerns that the newly formed NDA government might be at loggerheads with the RBI given the pro-growth focus of the Bharatiya Janata Party. This was coupled with statements from party leaders that the government would aim to lower rates. Rajan had reacted to this stating that setting interest rates was RBI's job. However, toward the weekend the air had cleared with the government renewing its pledge to tame price rise and Rajan saying that he expected to work with the new government on bringing down inflation. The yield on the benchmark 10-year bond fell 4 basis points to 8.61% after Rajan's comments. "We are expecting surprises from the credit policy on the positive side even though the consensus is close to unchanged," said Shrikant Chouhan, head, technical research, Kotak Securities.

Incidentally, the RBI has said that it would not be holding press conferences or engaging in any interview. Many feel that the RBI would prefer to maintain a low profile and wait to see what measures the government undertakes to reign in the fiscal deficit in its July Budget. The government has the challenge of boosting investment and at the same time reign in the fiscal deficit.

(Times of India)