

RBI to review its credit policy today

Amid slowing economic growth, the Reserve Bank of India (RBI) is reviewing its credit policy on Tuesday. RBI is not expected to cut interest rates at its review as it remains worried about inflation, but it may cut the cash reserve ratio (CRR) for banks as a way to relieve tight liquidity, a move that would cheer markets as a sign of easing intent.

At the policy meet on Monday the Central bank warned of tougher times ahead and cut growth forecast to 7 per cent for financial year 2012 from 7.6 per cent earlier.

The central bank has also warned that inflation is likely to remain high and the fall in food prices would be short-lived.

Economists polled by Reuters last week were unanimous in their view that the Reserve Bank of India will keep rates on hold this week, despite weakening economic growth.

A minority - 7 out of 20 - forecast that the RBI would cut the CRR, the proportion of deposits that banks must hold with the central bank, by 25 or 50 basis points from 6 per cent, where it has stood since April 2010.

A cut in the CRR would ease banking system liquidity that has been far tighter than the RBI's target of 1 per cent surplus or deficit in terms of aggregate deposits.

Data last week showed annual headline inflation, as measured by the wholesale price index, slowed to a two-year low of 7.47 per cent in December. But manufactured products inflation edged up from the previous month.

Non-food manufacturing, or core, inflation is particularly sticky.

Also, factory output rose 5.9 per cent in November from a year earlier, exceeding all forecasts and providing a glimmer of optimism for the economy that the RBI is likely to take into account when making its policy decision, analysts said.

Still, nearly all economists who were polled expect the bank to cut its policy repo rate by June, after increasing it 13 times between March 2010 and October 2011.

Source: ibnlive.in.com