RBI unlikely to cut rates on Dec 18; CRR cut possible: Report

The Reserve Bank is likely to leave key policy rates unchanged at its mid-quarter monetary policy review next week but will go for 0.25 per centCRR rate cut to support growth, Bank of America Merrill Lynch said in a research report.

It said RBI will go for a 0.25 per cent cut in the cash reserve ration (CRR), which is the portion of bank deposits parked with the central bank BSE 0.36 %, on its December 18 policy review to support growth and will resume cutting rates only from January once inflation peaks off.

"We expect the RBI to resume cutting rates only from January - 75 basis points (0.75 per cent) till July - once inflation peaks off," the report said, adding that "RBI rate cuts will not transmit into lending rate cuts unless the liquidity situation improves."

Over the past three months, the Reserve Bank has reduced the cash reserve ratio, the portion of deposits banks are required to keep with RBI, by 0.50 per cent to 8 per cent. But these cuts did not lead to an easing of overnight rates.

Though, RBI has finally decided to resume open market operations (OMOs) to ease liquidity, BofA ML said that "Governor Subbarao may not want to take chances with the RBI's inflation fighting image by cutting rates at 7.5 per cent inflation."

India is the only BRIC where lending rates are almost at their 2008 peak, the report said.

India had been growing around 8-9 per cent before the global financial meltdown in 2008. The growth rate in 2011-12 slipped to a nine-year low of 6.5 per cent.

According to the official data, the Indian economy grew by 5.3 per cent in the July-September period this year, while in the quarter ended June 30, the economy grew by 5.5 per cent.

Inflation as measured by all indices has remained elevated and Wholesale Price Index-based inflation has remained above the Reserve Bank's comfort zone of 5-5.5 per cent for nearly three years now.

The RBI is scheduled to announce its mid-quarter monetary policy review on December 18.

Reserve Bank governor D Subbarao has resisted a widespread call for the growth-propping rate cuts for some time now, citing the elevated inflation.

(Economic Times)