RBI unlikey to ease monetary policy soon

The Reserve Bank may not rush to cut rates even as the corporate sector is seeking lower interest rates to boost investments.

"In the likely absence of any meaningful fiscal consolidation, RBI will be reluctant to cut interest rates, as without effective fiscal/structural measures growth may not be helped by lower rates while inflation could shoot up." noted a report by Deutsche Bank. " We see at most 50bps in rate cuts this year, and that too not before Q4'12." it said

Since the beginning of the year, real interest rates and the real exchange rate have eased, making the overall monetary conditions more growth supportive.In the circumstances cutting rates further would have provided some relief to firms in reducing the cost of debt service, but would have also potentially led to an increase in inflation expectations.

Both capital flows and sentiments have recovered somewhat in expectation of positive policy developments.

Some encouraging movement on retail and insurance sector liberalization, and progress on dormant mining projects have helped mark a revival in flows and strengthening of the exchange rate. The equity market also has shown signs of bottoming out, rising by 7% since the lows of May, the report noted.

"But in our meetings with investors over the past month, we have sensed little conviction in the ongoing rally. Real, fundamental developments have so far been modest, and investors are unlikely to give the policy makers a prolonged period of benefit of doubt.

After a particularly poor patch of dataflow and policy setbacks, it is refreshing to detect signs of the economy bottoming out and a greater degree of urgency to implement reforms from the public officials. The rhetoric needs to be followed with concrete actions expeditiously." said the Deutsche report.

(Economic Times)