

There is scope for RBI to cut interest rate: Rajan

Ahead of the annual monetary policy review of the RBI, Chief Economic Advisor Raghuram Rajan today said there is a scope for interest rate cut as the core inflation has come down and there is a need to push growth.

The RBI is slated to announce monetary policy for 2013-14 on May 3.

"The Rabi crop is likely to be good one. That will help bring inflation down. So as inflation comes down, there is case for RBI to cut interest rate. I think, we have a case for stronger growth," Rajan said at an event here.

Wholesale Price Index (WPI) for the month ended March moderated to three-year low of 5.96% against Reserve Bank's projection of 6.8%.

In its last policy review in March, RBI slashed short-term lending rate by 0.25% to 7.5%. Accordingly, the short-term borrowing rate came down to 6.5%. However, the Cash Reserve Ratio was retained at 4% on expectation that government will start spending more.

India's economic growth has slowed to a decade low of 5% in 2012-13. The third quarter of the financial year saw the growth plummeting to almost a four-year low of 4.5%.

Replying to a query whether retrospective amendments create negative sentiment, Rajan said: "In general, the government should avoid doing retrospective amendments, which Parthasarathi Shome committee report has suggested."

Former Finance Minister Pranab Mukherjee in his 2012-13 budget has brought amendment to Income Tax Act, 1961 with retrospective effect to undo the Supreme Court judgement that was ruled in favour of Vodafone.

Vodafone is facing the tax liability for purchase of Hongkong-based Hutchison Whampoa's stake in Indian telecom business Hutchison Essar in 2007.

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