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While traders are betting that India's surprise cash clampdown will open room for Governor Urjit Patel to cut interest rates again, economists are more circumspect.

By: [Priyam Mukhopadhyay](#) | Updated: November 15, 2016 4:33 AM

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Reserve Bank of India (RBI) governor Urjit Patel. (PTI)

While traders are betting that India's surprise cash clampdown will open room for Governor Urjit Patel to cut interest rates again, economists are more circumspect.

A Bloomberg survey of 12 economists is split through the middle on whether India's move to invalidate more than three-quarters currency in circulation will dent demand, lowering both inflation and growth. Disappointing economic data could push the central bank to reduce the benchmark rate as early as next month, some said; others maintained that Patel would wait for more evidence of a slowdown.

An expected surge in bank deposits as people follow the process to exchange worthless notes will also help push down market lending rates, said Madan Sabnavis, chief economist at Credit Analysis & Research Ltd. in Mumbai. "Therefore, a repo rate cut this time is not on — even as inflation is low."

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most emerging markets as rising U.S. Treasury yields undermine the case for riskier government debt.

India's benchmark 10-year bonds were the best performers in Asia last week, with the yield on the debt falling 12 basis points to 6.72 percent. Its close of 6.66 percent on Nov. 10 was the lowest since June 2009. Swap traders are pricing in the prospect of a quarter-point cut in the Reserve Bank of India's rate in 2016.

"The bond markets are rallying as investors are expecting a rate cut of 25 basis points, perhaps as early as next month," said Piyush Wadhwa, head of rates trading at IDFC Bank Ltd. in Mumbai. "The chances of lower inflation due to a short term hit to consumption will give the [RBI](#) incentive to cut rates."

An explainer on the sudden removal of 23 billion Indian bank notes

Indian banks will continue buying government debt as the outlook for public finances and inflation improves, offering them a better return than earnings from loans, according to Deutsche Bank AG. It estimates that Prime Minister [Narendra Modi](#)'s administration stands to gain as much as 6.2 trillion rupees from the cash ban, enough to wipe out its budget deficit for the year through March 2017.

The Reserve Bank of India "could use the potential impact of the demonetization undertaking as a rationale for further rate cuts," Kaushik Das, Deutsche's Mumbai-based economist, wrote in a report on Friday. "We have penciled in 25 basis point cut at the Dec. 7 meeting; more rate cuts could be coming early next year."

While the central bank has been intervening to support the rupee, a broader sell-off could compel it to allow the currency to weaken over the next few quarters and boost exports, he added.

A separate survey published late last month showed most economists saw the policy rate unchanged at 6.25 percent in December, with a final cut to 6 percent coming only between January to March.

Indians have until Dec. 30 to swap their worthless currency for new notes or deposit them into bank accounts. The actual impact however can be assessed only around March, said

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Further the decision may tend to have an inflationary impact once the entire process is over," he added. "The currency decision is unlikely to have a material impact on the RBI's policy decision next month."