

RBI expected to cut rates ‘aggressively’: SBI study

G Naga Sridhar

Hyderabad, November 29:

In the first policy review post-demonetisation, the RBI is expected to cut rates “aggressively” in the monetary policy review next month, according to a study by State Bank of India

“We expect the RBI now to cut rates aggressively in December up to 50 basis points. Our expectation of a sub 3.5 per cent inflation rate in November/December now looks sacrosanct,” said the study.

The reduction in interest rates by the RBI, according to the study, will be consistent with a lower term structure of interest rates that will “enormously” benefit banks at least in treasury gains for better provisioning when they have been entrusted with the “onerous” task of mobilising the entire accretion in yearly deposits in less than two months.

“Additionally, the loss to GDP will significantly widen the output gap, a perfect foil for cutting rates,” it said.

Referring to the RBI’s directive to all scheduled commercial banks to maintain an incremental CRR of 100 per cent on the increase in NDTL between September 16 and November 11, the study said RBI should come clear on measures to be taken as part of a “reactive policy”.

Because of the incremental CRR move, the total CRR requirement for banks will be around ₹ 8 lakh crore. To manage their liquidity position, banks will have to resort to selling of government securities under repo operations.

The imposition of 100 per cent incremental CRR seems unprecedented and is the first time in history.

The move has come to absorb excess liquidity in the system. Liquidity, which was in deficit mode in the first three months of this fiscal (with an average of ₹ 65,200 crore), has turned into surplus mode in the following months (with an average of ₹ 31,200 crore in July-October).

“This surplus has jumped significantly to an average of ₹ 1,86,000 crore in November 26, owing to demonetisation,” as per the study.

The loss to GDP will significantly widen the output gap, a perfect foil for cutting rates, says study

(This article was published in the Business Line print edition dated November 30, 2016)

MORE FROM BUSINESS LINE

Bigger is not always better

Bharatiya Mahila Bank merger with SBI cleared

Cash crunch causes economic engines to sputter