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RBI likely to adopt wait-and-watch approach on Tuesday

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Patel was the one who wrote the inflation glide path for RBI when he was deputy to former Governor Rajan, and analysts say it is unlikely that he will jettison his guard on price rise, especially under the new inflation targeting framework. (Reuters)

The newly-constituted Monetary Policy Committee (MPC) headed by [RBI](#) Governor Urjit Patel is unlikely to lower rates at its maiden policy review on Tuesday as it awaits more supporting data on inflation, experts said.

The monetary policy review on October 4 will be the first by the six-member MPC as well as Governor Patel, who as the deputy governor had described the RBI as an owl when it comes to inflation management.

“I don’t think the Reserve Bank is going to change rates as inflation — both WPI and CPI — have not softened much,” Bank of Maharashtra Managing Director and Chief

August retail inflation eased to a five-month low of 5.05 per cent but WPI inflation climbed to a two-year high of 3.74 per cent.

Before the dip in August, both the retail as well as wholesale price indices were on a continuous upward spiral.

The government had in August notified 4 per cent inflation target with a range of plus/minus 2 per cent for the next five years under the monetary policy framework agreement with the Reserve Bank.

Patel was the one who wrote the inflation glide path for RBI when he was deputy to former Governor Rajan, and analysts say it is unlikely that he will jettison his guard on price rise, especially under the new inflation targeting framework.

“RBI is unlikely to cut rate this time,” Union Bank of India Chairman and Managing Director Arun Tiwari said.

On his policy expectations from the new Governor, he said Patel may announce “some more measures related to resolution of non-performing assets”.

Rating agency Crisil also thinks there will be no rate cut on Tuesday as “RBI may choose to wait for some more time before wielding the knife as inflationary trends may accelerate going forward.”

“Risks to inflation could emanate from high protein inflation, which has recorded double-digit growth for 14 consecutive months, services inflation, especially in rural areas, which is keeping core inflation high and sticky and surprise pick up in oil prices,” Crisil said in a recent note.

Another rating agency India Rating said, the sharp fall in retail inflation in August has accentuated the rate cut proposition in the next quarter itself, though it has made the RBI’s target of bringing retail price inflation down to 5 per cent by March 2017 achievable.

“But it may be early to rejoice given the baffling behaviour of retail inflation in the past.

It further said the wholesale food price inflation was 5.3 per cent during financial years 1996 to 2005 but increased to 9.2 per cent between financial years 2006 and 2016.

“Clearly, the fight on the inflation front, particularly food inflation, is far from over,” it added.

Some market participants feel the MPC, which is meeting for the first time, may wait for more sustained signs of moderation in inflation and may go for a rate cut only in the December policy.

BNP Paribas Chief Economist Richard Iley said, “With core inflation developments remaining benign, the door is ajar for a final 25 basis point rate cut this cycle although Patel may choose to delay a move until December.”

Japanese brokerage Nomura expects a 25 basis points repo rate cut in December, followed by an extended pause in 2017, given upside risks to inflation and sticky underlying factors.

MPC has three members each from the government and the Reserve Bank.

The government nominees are Chetan Ghate, professor at the Indian Statistical Institute; Pami Dua, Director, Delhi School of Economics and Ravindra H Dholakia, professor at IIM-Ahmedabad, while RBI nominees are the Governor, Deputy Governor in-charge of monetary policy R Gandhi and Executive Director Michael Patra.

For the upcoming monetary policy announcement, the RBI has rescheduled the timing to mid-afternoon against the usual 1100 hrs.

If the six-member panel is divided on rate decision, the Governor can use his veto power to take a final call on the policy rates.