

RBI may cut repo rate by 25 bps, say bankers

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Recent dip in inflation gives wiggle room for central bank

Mumbai, April 3:

Reserve Bank of India Governor Raghuram Rajan is likely to announce a 25 basis points cut in the repo rate when he unveils the first bi-monthly monetary policy for 2016-17 on Tuesday, say market experts.

The repo rate is the interest rate at which the central bank provides short-term liquidity to banks; it is currently at 6.75 per cent. One basis point is equal to one-hundredth of a percentage point; the anticipated 25 basis points cut would translate to a 0.25 percentage point cut.

While retail inflation reading for February edged lower to 5.18 per cent (against 5.37 per cent last February), allowing it the wiggle room to cut the repo rate, the central bank will be watchful for the monsoon outturn and the impact of the implementation of the 7th Central Pay Commission award on inflation.

Moreover, the RBI may prefer to see how a small 25 basis points cut in repo rate (in the so-called lean season -- April to September -- for credit) gets transmitted into the banking system following the recent interest rate cut on small savings schemes by the government and a new lending rate regime coming into effect from April 1.

In fiscal 2015-16, the RBI had cut the repo rate cumulatively by 75 basis points in two tranches -- 25 basis points in June and 50 basis points in September.

HSBC Global Research, in a report, said it expects the RBI to cut the policy rate by 25 basis points. While there is a clamour for a 50 basis points cut, HSBC economists said they would be hesitant to make it their base case. The RBI could cut the policy rate later in the year, bringing it down to 6.25 per cent by end-2016.

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