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RBI may not cut rates next week: India Ratings

By PTI | Updated: Jun 03, 2016, 09:29 PM IST

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MUMBAI: RBI Governor [Raghuram Rajan](#) will go for a status quo in rates at the upcoming policy review on Tuesday, and focus on inflation and transmission of past rate cuts, says a report.

"The [Reserve Bank of India](#) is likely to maintain a status-quo on interest rates in the second bi-monthly monetary policy review," the report by [India Ratings](#) said.

Meanwhile, global brokerage HSBC also said that Rajan will go for holding rates at the review and may do a final 0.25 per cent cut in August.

India Ratings said rather than cutting rates, Rajan will focus on inflation control, liquidity management and the pending policy transmission in the near-term.

Other factors like US Fed's possible rate cut call, fate of the Britain's stay in Euro zone and the performance of the monsoon will also prevent the rate cut action, it said.

It, however, said there is room for one more 0.25 percentage point cut in the key rates which Rajan may opt for at the next review in August, it said.

The headline inflation rose to 5.4 per cent in April on a spurt in food prices. The RBI is targeting to bring it down to 5 per cent by end of the fiscal 2017, and has made it clear that at present base-effect is helping the country.

The agency said uptick in brent crude prices and domestically higher minimum support prices will also push up headline inflation in the future.

At the last review, Rajan had cut the policy rate by 0.25 per cent but taken a host of measures to improve the liquidity and reduce the cost of funds for banks. The rate cut was accompanied by narrowing the policy rate to 0.50 per cent from 1 per cent by reducing marginal standing facility rate by 0.75 per cent and increasing the reverse repo rate by 0.25 per cent.

The agency said call money rates have remained closer to the repo rate and liquidity conditions have been largely comfortable since the last review.

This was possible due to the factors like a significant decline in government's surplus cash with RBI, which declined to Rs 36.47 billion on June 2 from Rs 809.82 billion on April 5, and open market operations by RBI, it explained.

The rating agency said in the last review, the RBI had sought to address tight liquidity and weak transmission, and progress on the latter is still elusive.

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