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Expert Views | RBI's Monetary Policy Panel Pares Rates As Patel Takes Stage

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India's newly appointed monetary policy committee delivered a surprise 25-basis-point cut in the repo rate to 6.25 per cent on Tuesday as Reserve Bank of India Governor Urjit Patel presided over his first policy review since his appointment last month

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India's newly appointed monetary policy committee delivered a surprise 25-basis-point cut in the repo rate to 6.25 per cent on Tuesday (04 October), as Reserve Bank of India Governor Urjit Patel presided over his first policy review since his appointment last month.

The repo policy rate is now at its lowest since November 2010.

Commentary:

Abheek Barua, Chief Economist, HDFC Bank, New Delhi

"We had anticipated this, and given the current trajectory of inflation, there was a window of opportunity to cut rates. The sooner they did it the better. I am happy that they did it. In fact, unless the pay commission payouts and HRA allowances, lead to a pick up in inflation, I think there's room for another rate cut between now and the end of the year."

Rupe Rege-Nisture, Group Chief Economist L&T Finance Holdings

"While the RBI has cut the repo rate by 25 basis points, the policy statement remains less dovish in its guidance. It still sees upside risk to inflation target that has to be achieved by March end. While today's rate cut would accentuate the bond rally, I don't see much impact on the bank lending rates."

Radhika Rao, Economist, DBS, Singapore

"Today's cut was along our expectations, with an unanimous vote by policy members. The accompanying rhetoric was relatively neutral rather than dovish, reinforcing the inflation target for March 17 at 5.0 per cent, but with modest upside risks."

"This might inject some knee-jerk weakness in the markets. Today's cut we reckon was a front loaded move given pipeline cost-push pressures into next year and global uncertainties over the next six months. Liquidity stance will nonetheless stay supportive to help markets deal with upcoming FCNR maturities and ensure policy transmission remains on track."

P. Phani Sekhar, Fund Manager, Karvy Capital, Mumbai

"We were expecting RBI to keep rates on hold as against a cut. But we believe a rate cut is not going to make a significant difference. Investors are watching for global action, whether RBI cuts or raises (interest rates) is of very little importance from a medium-term perspective."

"This is the first policy meeting of the new governor, we would not read too much into it."

"This policy, while important from a domestic point, serves limited purpose from a larger investor point of view. It is the global action that needs to be closely monitored."

Shubhada Rao, Chief Economist, Yes Bank, Mumbai

"This was along expected lines. That dominant pressure on headline inflation, mainly food, has begun to ease rapidly, which paved way for the 25 bps rate cut today."

"We believe that inflation is likely to surprise on the downside by about 20-30 basis points by end March, compared to the 5 per cent stated by the RBI. As such, this could provide additional room for 25 bps rate cut in the current fiscal year."

"In our assessment, the monthly data on inflation print on account of food are likely to take the headline inflation at or below 4 per cent, which could therefore allow the 20-30 basis points downside by end March."

Anand Natarajan, Head of Strategy and Business Execution, Fullerton India Credit Company Limited

"The reduction in repo rate has been driven, expectedly, by continuing improvement in food inflation given strong sowing and measures to improve supply. We are hopeful that ample liquidity will enable continued transmission of this reduction, which will help further vitalize industry. The Reserve Bank is rightfully mindful of potential inflationary risks from the House Rent Allowance revisions and the minimum wage increase. We believe this will inform the medium term rate decisions, given the ambitious medium term inflation target of 4 per cent."

Jimeet Modi, CEO, SAMCO Securities

"The rate cut could have been triggered due to normal monsoon, slowdown in global growth expectations, lower domestic inflationary expectations in the near term and global liquidity inflows."

"However a slight caution on account of payout of 7th pay commission could trigger some inflationary pressures was visible from the tone but overall the pronouncement of accommodative monetary policy is positive for the Indian economy and the stock market in the medium to long term."

Deepak Premnarayan, President, Indian Merchants Chamber and Chairman FirstRand Bank India

"Today's rate cut should spur growth and the corporate sector should see it as an encouraging move to foster investment. However, the speed of transmission of this rate cut would be an important determinant."

"IMC is of the opinion that RBI could also have taken a stance to reduce the CRR rates as well in unlocking and monetizing the huge approx. Rs 5 lacs crores of idle money which could be brought into the liquidity system."

Surendra Hiranandani, Chairman and Managing Director, House of Hiranandani

"This will infuse confidence in the system thereby providing a boost to not only the real estate sector, but the overall economy ahead of the crucial festive season. There is an urgent need to focus on growth and create more jobs that will strengthen the economy."

George Alexander Muthoot, Managing Director, Muthoot Finance Ltd

"We expect it will support the economy's investment demand and uptick in credit environment. A relief on the cost of funds is awaited eagerly by the corporate India, which should help them to improve financial health and plan for the next leg of growth."