

ASSOCHAM BUSINESS BAROMETER

India Inc sees further rate cut coming in RBI policy review

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On the eve of mid term review of the monetary policy, the trepid corporate sector is expecting the central bank to further liberalize the interest rate regime by 50-100 basis points cut in repo rate as the Indian economy along with the rest of the world feels the serious concerns of slowdown.

A survey of 105 CEOs and Managing Directors (MDs) done by Assocham Business Barometer (ABB) across various industrial segments, has revealed that 77 per cent of them expected a follow up rate cut by RBI to calm down the volatility in the domestic markets set off by international financial markets which could have serious implications on the real economy.

“A 100 basis points slash in repo rate by RBI was a welcome move but we expect the Reserve Bank to complement the move with a further rate cut in the coming policy review”, said Mr. Sajjan Jindal, President, Assocham.

Out of the 81 CEOs/MDs expecting the follow up rate cut, 54 feels that the rate cut could be upto an extent of 100 basis points while 27 expects RBI to slash it by 50 basis points. This is a clear indication that India Inc is optimistic about monetary authority shifting focus to prioritize growth ahead of inflation as the latter has shown signs of a fall back by touching an 18 weeks low at 11.44 per cent.

Flattening inflation is seen as the most convincing factor for the RBI to go for a further rate cut. Crude oil at 13 month low has pared 50 per cent to below USD 73 a barrel, with Indian basket price at USD 68 a barrel. Inflation is further likely to come down as commodity indices have nosedived after peaking in July this year.

Of the total ABB respondents, 63 per cent maintained that the repo rate at 8 per cent is still at a higher level when compared to the rest of the world. Also there also a scope for the repo and reverse repo rate spread to be narrowed down to 1 to 1.5 per cent. Hence they feel there is still headroom for a possible rate cut.

The IMF has cut down its projected growth rate for India by 0.1 per cent for 2008 and by a concerning 1.1 per cent for 2009 from its July projections. The CEOs surveyed felt that the Reserve Bank would act well in time to address such a steep decline in the projected growth rate.

IMF's Projections for INDIA

GDP growth for	Oct 2008	Difference from July 2008
2008	7.9	-0.1
2009	6.9	-1.1

Source: IMF, World Economic Outlook, October 2008

Most of the CEOs stated that there is still a case for a follow up interest rate cut as it would give the necessary boost to dropping industrial growth rate and help in fostering employment prospects. The industrial growth this fiscal has been a worrying factor for the economy. The industrial growth as shown by the Index of Industrial Production (IIP) for August has slowed down to 1.3 per cent, one of the worst performances on record, as is the April-August growth rate of 4.9 percent which is the fourth lowest (April-August) growth since 1992.

The central banks across the world have taken unprecedented actions by cutting their key interest rates to significantly lower levels to deal with financial crisis shaking the global economy. RBI has followed suit with a 250 basis points cut in the Cash Reserve Ratio and a 100 basis points cut in the repo rate that will augment the efforts to address liquidity concerns.