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RBI pulls a surprise



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After surprising the markets with a 50-basis-points repo-rate cut in the April monetary policy meeting, the RBI has surprised the markets again with no cut in Monday's mid-quarter policy review, when everyone was expecting a 25-point cut.

So what might have driven the RBI's decision?

Primarily a belief that the current slowdown in growth is due to slowdown in investment activity and that "role of interest rates are relatively small" in driving investments.

The belief seems to be that the subsidy burden of the Government is limiting or crowding out public investment, especially at a time when "reviving investment is a critical imperative".

On the inflation front, the moderation in the wholesale price index from 10 per cent in September to 7.7 per cent in March is a welcome sign, though the consumer price index remains at elevated levels.

The bottom line is that the central bank is concerned about slowing growth, but high inflation is hampering efforts to cut rates aggressively at this juncture. In the trade-off between growth and inflation, it looks like the latter has prevailed for now.

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