HOME LOANS BELOW 8%

RBI expected to cut rates on Dec 5

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The RBI is widely expected to cut interest rates in the forthcoming monetary policy review on December 5. However, the bad news is that market participants expect that the government will overshoot its fiscal deficit target, which will push bond yields high and keep a check on any rate cut being transmitted to the bond markets.

A majority of economists polled by **TOI** expect the RBI to cut its repo rate by 25 basis points (100bps = 1 percentage point) to 4.9%. A cut in the repo rate would, however, be immediately transmitted to retail borrowers as the RBI has forced banks to link loans to an external benchmark instead of a self-determined reference rate. Most banks have chosen the RBI's repo as a benchmark, which means that home loans could fall to below 8%.

In his last policy, RBI governor Shaktikanta Das had said that the central bank was willing to keep rates soft for as long as it takes to revive the economy. Given that the growth numbers were at a six-year low, there is enough reason for the RBI to keep the policy accommodative.

However, the fiscal deficit numbers for the first seven months have surpassed budgeted levels and stand at 102% of the annual target. There is also no clear communication from the government whether it is willing to abandon the fiscal deficit target in favour of a stimulus. However, government officials have pointed out that

there is still scope to come back and stay within the target considering that last year, the fiscal deficit for the first seven months was almost 104% of the budget but recovered later.

"Based on the shortfalls in GST and corporation tax and the lower-than-estimated growth in GDP, we estimate the gross fiscal deficit for the year to be in the range of 4.1-4.3%," said CARE chief economist Madan Sabnavis.