Challenges before MPC

Why in news?

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The Monetary Policy Committee (MPC) of RBI is set to decide its policy stance in the coming days.

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What were the outcomes of the previous meeting?

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- The RBI's rate setting Monetary Policy Committee (MPC) has kept the repo rate unchanged at 6.5%.
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- The RBI has also changed its stance from 'neutral' to 'calibrated tightening'.
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- This indicates that there will not be a rate cut in the near future and rates could either go up or stay steady in the future.
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Is a rate cut likely in the upcoming meet?

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- There is an argument for a rate cut for several reasons.
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- The gross value added (GVA) growth rate for the second quarter shows the weakness in the economy.
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- GVA growth decelerated to 6.9% in this fiscal year, comparing to 8.5% in FY16, despite a favourable base effect.
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- Sequential GVA growth, too, showed that most key sectors such as

agriculture, manufacturing, mining and construction decelerated.
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- On the inflation front, the retail inflation rate steadily declined from 3.77%(in September) to 3.31%(in October), where lower food inflation played a major part.
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- With the lower crude prices, Inflation is also expected to fall further to 3%, which is well below the RBI's target of 4%.
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- The rupee too has recovered from over Rs.74 (to a dollar) to under Rs.70, serving as a challenge for exporters in boosting their earnings.
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- Thus, there is a need for lower ratesto boost the economic growth.
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What are the concerns?

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- MPC's change in stance from "neutral" to "calibrated tightening" ruled out any rate cuts in the near future.
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- But considering the liquidity scenario in the country, a rate hike seems inevitable.
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- The latest RBI data shows a liquidity deficit of Rs 620 billion in the banking system.
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- Also, higher rates affect private investments in the economy, creating a need for more and more government spending.
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- Thus the RBI is grappling with a dramatically different picture of the economy and should consider all these factors before deciding the policy rate.
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Source: Business Standard

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