Monetary Policy Review

Why in news?

The Reserve Bank of India (RBI) has reviewed its monetary policy lately.

What does the review indicate?

- This review indicates that the RBI will prioritise the revival of economic growth over inflation through the end of the current financial year.
- The RBI has reconstituted the Monetary Policy Committee (MPC), with three new external members.
- The MPC unanimously voted to keep policy interest rates unchanged.
- This was said even as it categorically stated that the RBI would continue with the accommodative stance to revive growth on a durable basis and mitigate the impact of Covid-19 on the economy.

What did the RBI find?

- The MPC tilted away from its inflation targeting mandate by downplaying the risks on the price pressures front.
- This is because the RBI has found that **supply shocks** were responsible for keeping inflation above the tolerance band for months.
- These shocks should dissipate as the economy unlocks, supply chains are restored, and activity normalises.
- As part of the shift in priority, it projected that it would stick with the accommodative stance during the current and the next financial year.
- This forward looking guidance prompted one of the new members to dissent and vote against the wording.
- The MPC's majority view of ensuring a 'dovish' position on interest rates for at least six months has left it little near-term leeway to tame price pressures.

What did the RBI Governor emphasise on?

- The RBI Governor emphasised that the current 'inflation hump' was a brief phenomenon that needs to be looked through when taking measures to help the economy return to its feet.

- The RBI has taken a series of liquidity enhancing and credit flow supportive steps.
- With these steps, the RBI reiterated its commitment to maintain stability in the financial markets.
- This comes at a time when the resources-strapped Central and State governments are expected to resort to substantially higher levels of borrowing to meet their spending needs.
- There can be no argument that the economy needs all the support it can get to recover from its 23.9% estimated contraction of the first quarter.

What is the forecast?

- The RBI sees a gradual recovery.
- It has forecasted a marginal growth of 0.5% in the fourth quarter that would narrow the full-year contraction to 9.5%.
- It is the inflation assumptions, however, that cause disquiet.
- From a projection of 6.8% for Q2, CPI inflation is posited to sharply ease: 5.4% in Q3 and 4.5% in Q4.
- There are risks like persistence of supply bottlenecks, cost-push pressures from higher taxes on transport fuels and the possibility of food-price inflation.
- In overlooking these risks that becoming entrenched pose to the outlook on prices, the RBI has clearly sought to talk up confidence.

Source: The Hindu