RBI's Fouth Bi-monthly Monetary Policy Review 2017

What is the issue?

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- The latest monetary policy review came amid hopes that the RBI would ease interest rates to boost economic growth.
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- But the RBI has laid the onus of growth squarly on the government while retaining inflation control as its primary concern.
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What is the background?

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- Retail inflation has gone up by around 2% since the Monetary Policy Committee's last meeting.
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- Growth is decelerating and is expected to slow down further.
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- These two factors explains RBI's decision to hold back reduction in the repo rate – the rate at which the central bank lends out.
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- Repo-rate reduction would have increased liquidity in the economy at a time when growth isn't supportive – which might increase inflation.
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How does the estimates look?

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- RBI slashed its estimate of the full year growth rate to 6.7%, as against 7.3%

earlier.
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- It also marginally increased the CPI based inflation estimate to 4.2-4.6% for the second half of the financial year.
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- 5.7% growth of the gross domestic product in the first quarter of the current financial year is worrying.
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- When substantial parts of the global economy, are registering economic expansion, India's economy seems to be slowing down.
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- The outlook for world trade in 2017 is also looking up, but India seems set to miss out on this.
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- This is in stark contrast to the perception a few years ago, when India was seens as the "only bright spot" in the global economy.
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How can the slowdown be addressed?

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- It is not clear whether the ongoing slowdown is a result of disruptions due to demonetisation & GST.
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- Long-term structural hurdles such as the banking crisis due to NPAs could also be the primary cause.
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- While, trying to address NPAs, RBI has also stressed the need to revive the demand for credit & private sector investment.
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- The festive season ahead and the upcoming 'Pay Commission' award for government employees is hoped to boost demand.
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- The government should focus on further economic reforms while improving the quality of its own spending for facilitating growth.
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Source: Business Standard

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