

TOP NEWS: **IBPS CWE RRB exams 2016: Here are a few tips to clear the prelims**



[Home](#) / [Fe columnist](#) / [Editorial: RBI does well to pause](#)

# Editorial: RBI does well to pause

Good idea to see if govt counters pay panel impact

By: [The Financial Express](#) | New Delhi | Updated: December 2, 2015 12:37 AM



RBI Governor Raghuram Rajan speaks during a press conference announcing the RBI monetary policy at RBI Headquarters in Mumbai on Tuesday. (PTI)

Though RBI monetary policy review retained its FY16 GDP forecast at 7.4% and Jan-March 2016 inflation at 5.8% – with a mild downside risk to both – it has done well to not cut rates after the 50bps of front-loading in September. It is true CPI inflation rose to 5% in October from 3.7% just two months prior to that, but that was more related to the base effect since CPI had dropped a lot in the same period last year – more realistic CPI numbers will emerge after December. Given the continued global deflationary pressure, under normal circumstances, RBI should have been able to meet its 2017 targets as well. That is why Citi economists are holding on to their view that another 25-50bps of cuts will be seen in 2016, with 25bps coming right after the budget. This is something RBI has also hinted at when, in its review, it said “the Reserve Bank will use the space for further accommodation, when available, while keeping the economy anchored to the projected disinflation path ... to 5 per cent by March 2017”.

There are, however, too many wild cards for RBI to be sanguine. For one, as RBI itself says, the rabi sowing data along with the poor reservoir situation means the government’s food management will have to be very good. While the past suggests this may well happen, the Seventh Pay Commission (SPC) will be a lot trickier. The RBI is optimistic about how this will be handled – the direct impact on aggregate demand, RBI says, “is likely to be offset by appropriate budgetary tightening as the Government stays on the fiscal consolidation path”. If that is indeed true – which is why it is important to wait for the Budget – that is good news, though it would have its implications for the consumption-led growth most are banking upon. The SPC impact, it is true, will be lower than the previous one since there will be less arrears, but it has to be kept in mind that government emoluments rose from 2% of GDP in FY08 to 2.9% in FY10 (due to the staggered, but large, arrears) and finally settled at 2.5% of GDP after a few years. Apart from the salaries, it is the pension impact – especially the one-rank-one-pension type of recommendation – that is the most worrying. As SPC points out, the department of posts has 4.6 lakh employees according to one official source, 2.1 lakh according to another while SPC itself puts the number at 1.9 lakh – imagine what this will do to the pension bill. There is, also, the impact on teachers and PSUs that will follow the SPC award and, in a year or two, the states will also follow. Worse, unlike the case in FY16 where falling oil prices allowed the government to net 0.3% of GDP by way of additional taxes, FY17 is

unlikely to afford such easy solutions. Waiting for the budget will give RBI clearer signals.



**PROMOTED STORIES**



**Singapore Is Actually an Amazing Destination for Kids and Here's Why**  
Singapore Tourism Board



**How These Powerful Women Are Leading the Way**  
Citi Blog



**5 Places You Should Visit Before They Vanish**  
Parachute by MapQuest



**Honda breaks with tradition to bring in fresh ideas**  
Nikkei Asian Review



**The 10 best countries to work in**  
Mother Nature Network



**How Ronald McDonald House Charities® Helped Our Family Stay Together During Illness**  
2 Kids and a Coupon



**The 33 Best Tips You Should Know For Retirement**  
Quote



**The Cost of a Cup of Coffee Every Year Since 1967**  
Consumer Price Index (CPI) - Inflation Calculator and Rates



**Top 10 Most Dangerous Cities**  
Law Street

Recommended by

**TAGS:** Raghuram Rajan RBI Monetary Policy Review

Give a rating:



Leave a comment

ME

What is your opinion?

Name

Email

Post

I Agree To T&C

---

[#Discover](#)

---

TRENDING NOW



Pranab Mukherjee visit boosted trust, confidence: Nepal



Punjab National Bank Q2 net profit dips 11.5 per cent to Rs 549 crore



Mulayam Singh's 'Samdhi' Lalu Yadav plays 'peacemaker' between warring Akhilesh, Shivpal



Pakistan wicket keeper Kamran Akmal eyeing international return, says can offer a lot with bat



Delhi grapples with toxic winter air pollution



Tata Motors defends strategy for \$1500 Nano car



Sack me or insult me but I have done good job: Shivpal Yadav to CM Akhilesh Yadav



Never wanted CM's job; would give blood, if asked to, says Shivpal Yadav at SP silver jubilee function



Hillary Clinton tries to tap Beyonce's Beehive in search for votes



Climate Change: China pledges 18-percent carbon emissions cut by 2020



JNU student leader Kanhaiya Kumar advocates opposition unity to take on BJP



#### EDITOR'S PICKS



Hurricane Matthew in Haiti: Death toll rises to 339; Barack Obama declares emergency in Florida



What is Hurricane Matthew? Here are 5 facts on the strongest winds to hit US in almost 118 years



Used and abused, differently abled 3-time gold medalist now survives on Rs 300 pension



Dengue, Chikungunya, Malaria: Know the causes, symptoms, treatments and preventive measures



Here's how Chinese actor Xu Ting died after ditching chemotherapy over Chinese traditional medicine



Amazing photos of unexplored deep-sea volcano - a hotspot for mysterious life



Dalits are right: Enough is enough, says P Chidambaram



From when PM Narendra Modi 'snapped', and how Smriti Irani stole the 'Rakhi' limelight; an insider's account

Do you find any other...  
 www.smartfinan... >

### VIDEOS



Netflix launches new horror series in LA



Free wifi: a wolf in sheeps clothing?



Delhi woman, teenager blame each other of rape in a hotel room



2016 Range Rover Discovery Sport Startech Exterior Interior Walk around 2016 Geneva Motor Show

Over 62 million  
 domains are  
 managed by  
 GoDaddy.  
 largest provider.

Get Going

## Financial Buzz

Financial Express Buzz



23



A...



CROWDYNEWS

