

Status quo on rates: Rajan went with majority view of RBI's Technical Advisory Committee

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Recent uptick in food inflation prompted 4 out of 5 members to suggest holding rates



Raghuram Rajan, RBI Governor

Mumbai, August 31:

With the headline consumer price index (CPI) inflation proving to be sticky with a tendency to increase, four of the five external members of a Reserve Bank of India panel on monetary policy recommended status quo on policy rates for the third bi-monthly monetary policy review.

Outgoing RBI Governor Raghuram Rajan concurred with this recommendation, keeping the policy repo rate unchanged at 6.50 per cent in the policy review of August 9.

Majority of the members of the Technical Advisory Committee on Monetary Policy were of the view that CPI and CPI-food inflation have seen a recent uptick and certain other price indicators continue to be sticky. According to them, elevated food inflation has second-round effects on headline inflation if it is persistently above double digits.

These members also reasoned that although industrial growth remains weak, improvement in liquidity should help banks pass on past policy rate cuts. Implementation of the Goods and Services Tax, they said, will pose an upside risk to inflation.

They felt that excluding food and fuel there are some signs of anchoring of inflation expectations that needs to be further strengthened by keeping the policy rates unchanged.

The real policy rate, they said, continues to be below the natural rate and there is no space for accommodation unless there is substantially lower inflation relative to the target of 5 per cent for March 2017 on a durable basis. One member, however, recommended a reduction in the policy repo rate by 50 basis points.

According to this member, there is a high probability of inflation softening to 4-5 per cent by the year-end, and appreciation in the real effective exchange rate and increased interest differential will slow the recovery of large corporates.

For small and medium firms, however, the member recommended stepping up in reserve money growth in case it is low relative to the historical average.

The five external Members of the RBI panel are Shankar Acharya, Arvind Virmani, Errol D'Souza, Ashima Goyal, and Chetan Ghate.

(This article was published in the Business Line print edition dated September 1, 2016)

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