Bi-Monthly Monetary Policy Review

Why in news?

\n\n

The fifth bi-monthly monetary policy review of the ongoing fiscal year was released by the RBI.

\n\n

What are the highlights?

\n\n

\n
- The six-member monetary policy committee (MPC) has kept the policy repo rate unchanged at 6%.
\n
- Repo rate is the interest rate at which banks borrow funds from the central bank to overcome short-term liquidity mismatches.
\n
- Continuing with its neutral stance, the MPC reiterated its commitment to keeping CPI inflation at a target of 4% while supporting growth.
\n
- On development and regulatory policies, the RBI announced rationalisation of the merchant discount rate.
\n
- This is to give a further fillip to the acceptance of debit card payments across a wider network of merchants.
\n
- RBI also permitted the overseas branches/subsidiaries of Indian banks to refinance external commercial borrowings (ECBs) by raising fresh ECBs.
\n
- This applies to top-rated corporates as well as 'Navaratna' and 'Maharatna' public sector undertakings.
\n

\n\n

What is the rationale?

\n\n

\n

- The recent reversal of declining growth trend with an economic revival in the recent quarter hints at no pressing crisis on the growth front.
  \n
- Thus, the cautious stance of MPC is certain to be primarily driven by the inflation concerns.
  \n
- Having committed itself to keeping inflation within 4%, the MPC was expected to take a serious view of 3.6% retail inflation.
  \n
- Inflation forecast for the second half of 2017-18 has been slightly raised to 4.3-4.7% from the earlier forecast range of 4.2-4.6%.
  \n
- The MPC cited various reasons -
  \n

\n\n

\n

i. Fuel and food prices have indeed increased in recent months
   \n
ii. food prices are expected to stay elevated owing to lower rabi acreage than last year.
   \n
iii. oil prices going up
   \n
iv. the impact of increase in house rent allowance (HRA) by the Centre
   \n
v. bond market trends seem to suggest rising inflationary expectations
   \n
vi. risk of fiscal slippage
   \n
vii. status of rupee in the event of a rising interest rate differential possibly due to the imminent reversal of the rate easing cycle the world over
   \n

\n\n

\n

- The status quo in interest rate makes sense to resolve the NPA issue before expecting monetary transmission.
  \n
- Also, banks need to keep deposit rates attractive so that long-term savings are not depleted, impeding their ability to make long-term loans.
  \n

\n\n

What are the drawbacks?

\n\n

\n

- The MPC has not addressed growth issues, while maintaining its growth forecast for 2017-18 at 6.7%.
\n
- The economy remains demand-constrained, and needs a push either from fiscal or monetary policy.
\n
- The MPC has emphasized predictable concerns over “fiscal slippage” and its inflationary effects.
\n
- But it needs to go beyond being a plain inflation forecaster.
\n
- MPC should certainly do a dynamic analysis of the economy.
\n
- Notably, central banks the world over monitor job trends, but this does not figure in the MPC’s scheme of things.
\n
- Trends in savings, investment and debt need to be placed in the public domain, as well as the MPC’s take on them.
\n

\n\n

\n\n

Source: Business Line

\n