

## Hamletian dilemma of monetary policy

### Why in news?

The recent Monetary Policy Committee (MPC) meeting indicated that there was some divergence of opinion among the MPC members with respect to balancing growth and inflation

### What is the dilemma about?

- MPC decided to keep the policy repo rate, reverse repo rate and marginal standing facility (MSF) rate unchanged.
- It also decided to continue with the accommodative monetary policy stance till the economy recovers and CPI inflation rate is contained within the mandated 2-6% band.
- The dissenting view argued that the projected inflation is beyond the target inflation rate set.
- It led to speculations whether RBI has deviated from its mandate of flexible inflation targeting (FIT) and started emphasising growth over inflation.

### What are the reasons for the current inflation?

- **Supply-side problem** - The supply chain of the country have got negatively affected due to lockdowns.
- International prices soar up due to global shortages.
- All these led to rise in prices of products including food prices.
- Industrial production has shown a remarkable growth rate but it was still 13.9% below its May 2019 level.
- The latest quarterly GDP statistics shows that in real terms many industrial and services sub-sectors have not yet reached the pre-Covid production levels.

### What are the counter arguments against the dissenting view?

- If interest rate is raised to control inflation, there can be additional cost pressure on the firms which may lead to further price rise.
- Because of uncertainties associated with pandemic, projections based on past data with the assumption of business-as-usual can go wrong.

- Increase in reverse-repo rate allows the banks to park their additional funds with the RBI leading to lazy banking.
- So, it is perfectly sensible if RBI chooses to focus more on sustaining the nascent but uncertain growth process.

**Source: The Hindu Business Line**

