Monetary Policy Review - December 2019

Why in news?

The RBI, in its latest monetary policy review (December 2019), has kept the repo and reverse repo rates unchanged.

Why is the decision significant?

- The RBI has cut the policy rate (repo rate) consecutively in the preceding five monetary policy reviews.
- There has been a cumulative 135 basis points cut since February 2019.
- But the RBI now seems to have decided to pause this trend, by holding the interest rate.

What is the RBI's rationale?

- Economic growth concerns are still paramount which might call for a rate cut.
- However, a lot has changed between the earlier policies and now.
- Inflation is on an upward trend, and so a rate cut may turn out disadvantageous.
- Macro numbers indicate a considerable slippage in the fiscal deficit target of 3.3% for this fiscal.
- But, the government's approach to the fiscal deficit glide path is still unclear.
- Moreover, the effects of rate cuts since February still need to percolate down through the system, which is lagging.
- If RBI continues to cut rates without the cuts being transmitted down the line, the instrumental role of rate cuts in boosting growth may not happen.
- The Monetary Policy Committee (MPC) has thus taken care to point out that "there is monetary policy space for future action."
- Hence, the accommodative stance will continue.
- The MPC also wants to watch the government's moves in the budget before easing rates again.
- The RBI has, however, clearly indicated that facilitating growth is still at the top of its agenda.

What are the latest growth projections?

- Acknowledging the dismal growth in the second quarter, the MPC has

revised the growth projections for fiscal 2019-20.

- It has revised it sharply downwards to 5% from the 6.1% it had projected in the October 2019 policy.
- On inflation, the RBI has projected a significant rise in the second half of the 2019-20 fiscal.
- However, there is optimism that the spike is temporary.
- It is driven largely by rising prices of food items due to unseasonal rains that destroyed standing kharif crops.
- Given these, it seems to be a strategic pause by the MPC to watch how inflation moves and what the government does in the budget.

Source: The Hindu

