MPC’s Bi-Monthly Review

What is the issue?

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- MPC has acted predictably in opting to keep interest rates unchanged and in retaining its ‘neutral’ stance (i.e. rates further could move in either direction).
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- But the central bank’s policy statements are in contradiction with its actions and therefore MPC has sent out mixed signals.
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How does the inflation outlook look?

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- Price stability remains the primary focus of RBI’s **“Monetary Policy Committee”** (MPC) decisions regarding interest rates.
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- Currently, trend line retail inflation (based on Consumer Price Index), continues to run above its medium-term target of 4%.
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- The MPC has appreciably lowered its projections for CPI (consumer price index) inflation for the fourth quarter of 2017-18, and for the new fiscal year.
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- RBI has predicted an inflation slowdown over the next quarter and has cited sharp declines in vegetable prices and moderation in fuel prices as reasons.
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- But these inflation projections contradict public expectations.
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What are the issues with RBI’s projections?

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- **Inflation -** RBI is not fully convincing in its assertions as a food price reversal and the assumption of a “normal monsoon” aren’t clear.
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- Notably, despite weather predictions of a normal monsoon, MPC itself has flagged risks of temporally or spatially deficient monsoon over food prices.
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- Also, MPC seems to have glossed over the RBI’s March survey of households’ inflation expectations — where prices are seen to be increasing.
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- Feedback from manufacturers also suggests that they expect input and output prices to rise, all which don’t seem to indicate softening inflation pressures.
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- Additionally, while fuel prices are said to ease, MPC seems to have ignored or down played the volatility in the sector.
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- **Growth -** Gross Value Added (GVA) has been replaced by Gross Domestic Product (GDP) as the main measure of economic output, which is surprising.
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- While the policy statement asserts that GDP growth will strengthen in the current fiscal, the earlier forecast of 7.4% has been left unchanged.
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- Hence, the messaging on the economy by the RBI is ambiguous and could have been clearer and more consistent.
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Source: The Hindu

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