Rate cut by RBI

Why in news?

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The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) in its bimonthly review of monetary policy has cut the repo rate by 25 basis points to 6%.

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What is the rationale?

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- The rate cut was widely expected after many data releases suggested a slowing economy.
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- Consumer price inflation had hit record low numbers. Food inflation had turned negative.
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- However, some of the upside risks to inflation have either reduced or not materialised.
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- Suppressed urban **demand** implies that companies do not have great pricing power.
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- The Index of Industrial Production and Purchasing Managers' Index (PMI) for **manufacturing** were also not optimistic.
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- The high levels of **stress** that continue to be reflected in the balance sheets of both lenders and corporate borrowers does not seem to have scope for new **investments**.
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What caution has RBI taken?

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- The MPC’s statement said that the decision was in keeping with a neutral monetary policy stance.
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- The MPC has chosen to be cautious by cutting rates only by 25 basis points and not by 50 basis points or more as was demanded.
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- This is because MPC expects the trajectory of inflation to rise from current lows amid many uncertainties.
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- A conclusive separation of “transitory and structural factors” impacting price gains remains vague.
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- These factors include fluctuating prices of food items, farm loan waivers by states, salary and allowance increases as per seventh pay panel recommendations, etc.
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- The MPC acknowledges that there are moderating forces at work.
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1. a second successive normal monsoon that could check food costs.
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2. a stable international commodity price outlook that could help keep the inflation trajectory favourable.
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What lies before the governments?

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- The onus is now on the Centre and the States to take steps through **policy measures and fiscal actions.**
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- The Centre and State governments should move forward and make speedier clearance of projects to **boost investments**.
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- They should find resolution forthe **bad loans crisis** to make the rate cut fruitful.
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Source: Business Standard

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