Scope for further rate cut

What is the issue?

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Union government is expecting for a further rate cut from RBI

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What is the status of Indian economy?

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- The basis of inflation remaining under 4 per cent in the medium term.
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- Retail inflation rose to a five-month high of 3.36 per cent due to costlier vegetables and fruits.
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- The consumer price index (CPI) based inflation was 2.36 per cent.
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- Gross domestic product (GDP) growth for the April-June quarter fell to 5.7 per cent from 7.9 per cent.
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- This is the lowest since 2014, India has now lagged China in growth for the second consecutive quarter.
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- The economic slowdown is due to demonetization and destocking by companies before the goods and services tax (GST) roll-out.
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What are significant rate cut moves by RBI?

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- The RBI reduced the repo rate by 0.25 per cent to 6 per cent in August, citing reduction in inflation risks.
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- The rate cut was the first in 10 months and brought policy rates to a near 7-year low.

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- RBI maintained a “neutral” outlook, citing uncertainties in inflation trajectory,there is scope for monetary easing because of inflation projections.
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What is the need for further rate cut?

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- There is a demand for reviving the economy, boosting exports, spurring investments, and creating jobs for the millions entering the workforce.
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- But there is a slowdown in the manufacturing sector is due to various reasons.
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- Manufacturing sector is seriously affected due to appreciation of currency, lower interest rates needed to boost manufacturing.
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- Till the impact of demonetisation and GST wearing off RBI and central government need to make decisions in favour of manufacturing sector.
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Source: Financial Express

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