## February 2020 Monetary Policy-Compelling Case for Pause

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This Policy would be formulated in the context of difficult domestic and global conditions. To be sure, the long-term Indian growth story is intact and India continues to be identified as a bright spot in the global economy. But the Indian economy is in the midst of a pronounced slowdown clearly discernible in the 5 per cent growth, marking six consecutive quarters of slow growth reflected across segments and sectors.

Some such indicators are the slump in the automobile, real estate, fast-moving consumer goods (FMCGs), first fall in direct taxes in at least two decades, GST collections unable to reach the budgeted levels and investments, both private and public, steeply declined to a 15-year low in quarter ended June 2019. There are also important issues of boosting employment and growth; advancing education, skills and job creation; providing a renewed thrust on infrastructure and investment; promoting agriculture and farmers welfare; developing the rural sector; meeting the needs of the social sector including health care; developing financial sector reforms; streamlining governance and ease of doing business; and resource mobilization for agriculture and rural economy.

In this grim macro-economic scenario, breaking the vicious cycle of slowdown and promoting the virtuous cycle of steady growth and development is, by no means, easy. Where do we go from here? Given the evolving macro-economic situation and rising inflation, the choices are difficult and involve trade-offs, reconciling claims of competing sections and segments and grappling with the issue of promoting growth or not breaching the mandated inflation numbers. While these factors complicate the task of economic and monetary management, the retail inflation for Dec 2019 peaked to a 64-month high level at 7.35% as compared to 5.54% recorded in Nov 2019. Core CPI stood at 3.73% as against 3.48% in Nov 2019. Food inflation continued to spike and recorded a 6-year high price rise of 12.16% (yoy) and 2.11% (mom) in Dec 2019. Fuel inflation recorded a yoy rise of 0.70% and mom rise of 0.63% in Dec 2019. WPI inflation rose to 2.59% in Dec 2019 as against 0.58% in Nov 2019 largely on account of larger unfavourable statistical base. Given the evolving growth-inflation trade-off, the RBI is likely to continue with its "*accommodative*" stance.

The limitations of the monetary policy measures also need to be realized for a comprehensive assessment and perspective. For, despite the cumulative cut of 135 basis points effected by the RBI in the Policy rate in calendar year 2019, the lending rate has declined by only about 50-bps. The issue of delayed and inadequate transmission of rate cuts into the credit market, specifically bank lending makes a strong case for a pause on the Policy rate front. The panning out of the full impact of the recently announced Union Budget proposals reinforces the case for a wait and watch approach.
It has also to be realized that in the ultimate analysis, monetary policy must move in tandem with fiscal policy to perceptibly alter the ground realities.

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