Sansad TV Perspective: RBI Monetary Policy: Hawkish Stance

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the IAS exam, especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.
In this article, we feature the discussion on the topic: UNSC: RBI Monetary Policy: Hawkish Stance.

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Guests:
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Context: International Day of Awareness of Food Loss and Waste.

Highlights of the discussion:
- Introduction.
- Key Takeaways of MPC decisions.
- Its impact.
- Measures taken.
- Way Ahead.

Introduction:

- On expected lines, the Reserve Bank of India(RBI) raised the repo rate by 50 basis points to 5.9 % in a bid to contain inflation which has been above its comfort level for the past many months.
- RBI had slashed the repo rate in March 2020 with an aim to cushion the impact of covid-induced lockdown and maintained the status quo in the benchmark interest rate for almost two years before increasing it on May 4, 2022. Since then RBI has raised rates by a total of 190 basis points.

- RBI Governor pointed out that while real GDP growth in the June quarter turned out to be lower than the central bank's expectations, a late recovery in Kharif sowing, comfortable reservoir levels, improvement in capacity utilization, buoyant bank credit expansion, and the government's continued thrust on Capex are expected to support aggregate demand and output in the six months ending March 2023.
- RBI lowered the real GDP growth forecast for FY23 to 7% from 7.2% and maintained the CPI inflation forecast at 6.7%.

Key Takeaways of Monetary Policy Committee decisions:

- Given the geopolitical situation, the market had already expected the policy rate hike.
- The policy stance adopted by the Monetary Policy Committee indicates that the focus is going to be on the withdrawal of accommodation, which means India is not yet out of the woods as far as interest rate hikes are concerned.
- In terms of the growth aspect, although the growth prospects of 7.2% have been lowered to 7 %, RBI Governor has been optimistic as for the first quarter of the next fiscal year growth projections are raised to 7.2% and for the full fiscal year, the growth rate is expected to be 6.5%.
- The inflation rate remains the same at 6.7% and is expected to come down to 5% in the next financial year.
- If the fiscal deficit situation is observed for the first five months of the financial year, it is at the same level as it was in the last financial year. It should be remembered that the fiscal deficit requirement is more in the current year, thus showing the management of expenditure prudently.

Impact of interest rate hike:

- India is not severely affected by inflation as developing countries are used to slightly higher rates of inflation in contrast to the developed countries where the inflation rate does not go beyond 1 to 2%. Presently the European countries and the United States of America are reeling under high inflationary pressures.
- Moreover, the Indian government has been doing reasonably well to keep inflation under control by constantly checking food and energy prices.

Reaction of Industries:

- The industry was expecting an increase in the policy rate and thus has accepted the RBI’s stance.
- However, the Industry does not expect a full cycle of rate increase till February as:
    - Oil prices have started cooling off.
    - Conciliatory messages were sent by Moscow.

Measure taken:

- India has followed a disciplined fiscal policy during the two consecutive years of the pandemic.
- India was able to withstand the economic storm because of the good situation of the Foreign Exchange Reserve. Moreover, India has not exhausted its financial capabilities by adopting wasteful fiscal spending like other western countries.
- Measures like Production Linked Incentive schemes were also received well by the manufacturing sector. India is lagging in the manufacturing sector and the PLI scheme of approximately 2 lakh crore for fourteen sectors is a good move.
- The accommodative stance adopted by the Reserve Bank of India for five months has also benefitted the Indian economy to a certain extent.
- The RBI and the Government of India have worked in close collaboration to ensure that the Indian economy withstands global as well as domestic headwinds.
- During the pandemic, the government of India concentrated on the supply side and provided Atmanirbhar packages that helped India in sustaining its economy.

Way Ahead:

- Government should remain fiscally prudent and if necessary should increase the expenditure on the capital side.
- Government should also scale up its programme on Asset monetization so that the government has more resources at its disposal and therefore will have to rely less on borrowings. This will also lead to more investment opportunities for the corporate sector.
- It should be noted that currently there is a liquidity crisis that has not been adequately addressed by the government. So therefore Corporate sector capacity utilization can aid the economy. This will also make RBI stronger in fighting the challenges ahead.

- The corporate sector should sync themselves with the enabling provisions of the Government and RBI to make the Global Value chains resilient and the economy stronger.
- Direct Tax reform is another area that should be considered for a more sustainable and higher growth story.
- Government should also withdraw itself from the sectors/industries that are still under its control and gradually shift towards the role of an efficient administrator.

Conclusion:

The decision taken by the Monetary Policy Committee to increase the policy rate by another 50 points approximately two percentage points in the period of four to five months is a clear indication that RBI is continuing its withdrawal of accommodative stance. There are indications from various sources that the interest rate hike cycle has reached its peak and might see a slight reversal in future meetings.