

ALL POLICY TOOLS AT DISPOSAL TO FIGHT VIRUS IMPACT: RBI

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

Grim prognosis: The near-term growth outlook for India has deteriorated sharply due to the lockdown, says Mr. Das. PTI

The Reserve Bank of India (RBI) will not hesitate to use any conventional or unconventional policy instruments to mitigate the adverse economic impact caused by the COVID-19 pandemic, Governor Shaktikanta Das said, according to the minutes of the monetary policy committee (MPC) meeting released by the central bank on Monday.

The six-member MPC, at a non-scheduled meeting held in the last week of March, had decided to reduce the policy interest rate by 75 basis points (bps) to 4.4%, as the nationwide lockdown brought economic activity into a grinding halt.

In no uncertain terms, Mr. Das outlined the central bank's resolve to fight the economic fallout caused by the pandemic.

"The Reserve Bank will continue to remain vigilant and will not hesitate to use any instrument — conventional and unconventional — to mitigate the impact of COVID-19, revive growth and preserve financial stability," Mr. Das said.

Commenting that there was a rising probability of a global recession, which may be deeper than the one experienced during the global financial crisis, Mr. Das said the near-term growth outlook for India had also deteriorated sharply due to the 21-day nationwide lockdown. The RBI had refrained from making any growth forecast during the policy review meeting.

He said prior to the outbreak, some high frequency indicators such as manufacturing, railways freight traffic, exports and imports in January/February had improved after several months of contraction/deceleration.

"With COVID-19, however, industry and service sector activities are likely to be severely impacted and the extent of the adverse impact would depend upon the intensity, spread and duration of COVID-19," he said, while adding the only silver lining is likely to be agriculture, which is expected to remain resilient, with foodgrain production for 2019-20 estimated at a record 292 million tonnes.

While the setback to economic activity could be cushioned to an extent, by the collapse in crude oil prices, there could be certain downsides in the form of decline in remittances from oil-producing countries.

Indicating there was further scope for policy action to boost economic activity, the central bank said the inflation outlook had changed drastically due to the sharp fall in oil prices and food prices may also soften further on the back of record foodgrain and horticulture production.

"In the extreme scenario in which we are, however, the easing off of inflation may occur sooner and faster," RBI Deputy Governor in-charge of Monetary Policy M.D. Patra said, adding the inflation outlook offered the scope for taking a "calculated risk on current levels of inflation — which rule above the target — and focus on the 12 months-ahead forecast."

“By this rule, there is space for policy action that is large in size relative to its past but still keeps the policy rate positive in real terms over a one-year-ahead horizon so as to see off any lingering or latent inflationary pressures,” he said.

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