

BELATED PIVOT: THE HINDU EDITORIAL ON RBI, INFLATION AND SUSTAINABLE GROWTH

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The [Reserve Bank of India's Monetary Policy Committee](#) has rather belatedly acknowledged that its primary remit is, after all, to ensure price stability. Addressing the media on Friday after announcing the MPC's first monetary policy review of the new fiscal year, RBI Governor Shaktikanta Das was emphatic in stating that "in the sequence of priorities, we have now put inflation before growth". More than three years after it prioritised growth over price stability — in February 2019, and well before the onset of the COVID-19 pandemic — the RBI has pivoted back to putting the horse before the cart, best reflected in the central bank's own words on monetary policy goals: "Price stability is a necessary precondition to sustainable growth". That it has taken the outbreak of war in Europe, with its accompanying commodity price shocks to remind the RBI of the imperative centrality of price stability is a salutary reminder that monetary policymakers can ill afford to be complacent when it comes to inflation. Less than two months after it rather sanguinely projected inflation to average 4.5% in the fiscal year to March 2023, the MPC has raised the forecast by a substantial 120 basis points to 5.7%. And this even as it cut its earlier projection for real GDP growth in the current fiscal by 60 basis points to 7.2%. The RBI also made it clear that while it had left benchmark interest rates and its accommodative policy stance unchanged for now, the time had come to commence the "withdrawal of accommodation".

To be sure, Russia's invasion of Ukraine was still two weeks in the future the last time the RBI's rate-setting panel finalised its policy review. And yet, the price of crude oil, which Mr. Das cited as the key factor that had necessitated the revision of the inflation projection and the pivot, had already been on the boil since December. The price of the Indian basket of crude had surged by about 25% over the two months to February 1, with Brent crude climbing by a steeper 30% in the same period. In fact, the lone dissenter on the MPC on the issue of the policy stance in February, Jayanth Varma, had stressed the need to look ahead at the likely state of the economy at least three to four quarters later and shift to a 'neutral' stance given that monetary policy acts with a lag. The RBI's Deputy Governor overseeing monetary policy, Michael Patra, had on the other hand at the last MPC meeting starkly warned that, "central banks have a choice: either accept higher inflation for some time or be prepared to be accountable for destroying demand". With the RBI's own quarterly projections for inflation now presaging the possibility of a policy failure by way of three consecutive quarters of inflation above the 6% upper bound, policymakers have clearly realised any further delay in changing tack would risk leaving the economy with neither growth nor price stability.

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