

RESOLUTION CONFUSES MORE THAN IT CLARIFIES: MPC'S VARMA ARGUED

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

Terminal rate: 'A plain reading of the phrase would mean the MPC was set on taking the repo rate back to 6.5%'. AFPINDRANIL MUKHERJEE

The Monetary Policy Committee's August 5 resolution accompanying the RBI's interest rate increase, which stressed that the MPC would "remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth" ideally ought to have been dropped as it would only provide 'confusing guidance', MPC member Jayanth R. Varma said at the panel's meeting, the minutes released on Friday show.

"This statement confuses more than it clarifies," Mr. Varma observed. "Because the rate hike in this meeting takes the policy rate above the pre-pandemic level, "withdrawal of accommodation" ... can only mean withdrawal of the pre-pandemic accommodation that began with the rate cut from 6.50% to 6.25% in February 2019. A plain reading... would then be that the MPC is focused on taking the repo rate back to 6.50%," he said.

Such an indication of a terminal repo rate of 6.50% was totally unwarranted in the current situation given that the Ukraine war and monetary tightening in the advanced economies posed a very serious risk of recession in the world economy, he stressed.

However, given that inflation was at unacceptably high levels, and the projected trajectory was also above target during the entire forecast horizon, he noted that "further withdrawal of accommodation is warranted".

"The resolution should... be interpreted only as stating that there is a high likelihood of further front-loaded tightening," he emphasised.

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