

OMICRON SHADOW: ON RBI LATEST MONETARY POLICY

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

The [RBI's latest monetary policy action](#), of maintaining *status quo* on benchmark interest rates, the policy stance, as well as the full-year GDP growth and inflation projections, stems largely from a wariness of the risks posed by the Omicron variant of the novel coronavirus. Announcing the bimonthly policy, Governor Shaktikanta Das observed that 'headwinds from global developments' were the main risk to the domestic outlook, which was now "somewhat clouded by the Omicron variant of COVID-19". With the key drivers of demand in the economy — private investment and private consumption — still lacking meaningful momentum, the Monetary Policy Committee had opted to continue with its growth supportive 'accommodative' policy stance so as to enable a durable and broad-based recovery, he said. While it may sound churlish to question the MPC's stand, given that the ongoing recovery from last fiscal's record contraction is still yet to register an [across-the-board expansion from pre-pandemic levels](#), the fact that one of the six members of the rate-setting panel has dissented on the policy stance for a third consecutive time, cannot be ignored. Positing in October that the 'upside risks to long-term inflation and to inflation expectations had become more aggravated', external member Jayanth Varma had at the time cautioned the committee against falling into "a pattern of policy making in slow motion" guided by an excessive desire to avoid surprises. And while his specific reasons for voting against the grain this week are not immediately available, that the MPC is for now prioritising growth over price stability is clear.

Governor Das, who acknowledged the criticality of taming inflation when he asserted "price stability remains the cardinal principle for monetary policy as it fosters growth and stability", however, seems to be sanguine about the outlook for retail prices. Contending that winter arrivals would help bring down vegetable prices, which had spiked in October contributing to a marginal quickening in headline CPI inflation that month, Mr. Das has banked on optimism in asserting that the 'slack in the economy' may limit the pass-through of cost-push pressures that have kept core retail inflation persistently high for 17 months. The RBI's November round of 'Inflation Expectations Survey of Households' shows that households expect inflation to accelerate in the near and medium term. The median inflation expectation of respondents polled in an extension survey earlier this month, in order to factor in both a possible Omicron impact and the softening in fuel prices in the wake of the cut in excise duty, projects the three-months ahead rate at 10.8% and the one-year ahead reading at 10.9%. And though the RBI has begun to slowly tighten the liquidity spigot it opened in the wake of the pandemic last year, a more robust response to ward off price pressures will become imperative sooner rather than later. For a delay risks undermining precisely what Mr. Das said was the RBI's motto at this juncture, ensuring "a soft landing that is well timed".

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