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FROZEN BY UNCERTAINTY: THE HINDU EDITORIAL ON RBI AND ITS MANDATE TO ENSURE PRICE STABILITY

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

The Monetary Policy Committee’s decision to leave interest rates unchanged and retain its “accommodative” policy stance, albeit with one member dissenting over the stance, shows a central bank frozen into inaction by the “Knightian” or unquantifiable uncertainty surrounding the pandemic-hit economy. In sticking with the status quo, the RBI’s policymakers have underscored that they find themselves trapped in a no man’s land. On the one hand, both the global and domestic economy have suffered a loss of momentum in the wake of the Omicron wave and prognosticating prospects for the recovery has become even more risky in the face of the uncertainty shrouding the pandemic. In India, private consumption, which is the mainstay of domestic demand, shows little signs of regaining traction. Add to the mix the persistent increase in international commodity prices, a surge in volatility in international financial markets and global supply bottlenecks, and the risks to the outlook are further heightened. The most telling manifestation of the RBI’s prognosis for growth is its forecast for GDP expansion in 2022-23 — a markedly lower 7.8% when compared with the 8.0%-8.5% projection made in the Economic Survey. With the contact-intensive components of the services sector and private investment also becalmed, the central bank in fact expects growth in the next fiscal to sharply tail off over the course of the year: slowing from a 17.2% expansion in Q1, to 4.5% in Q4.

Nor is there any respite on the price stability front, the RBI’s brave attempts at downplaying the risks notwithstanding. Consumer Price Index-based inflation is seen peaking in the current, fourth fiscal quarter and averaging 5.7% after ‘moving close’ to the upper tolerance threshold of 6% in January, according to RBI Governor Shaktikanta Das. And disconcertingly, even as Mr. Das acknowledges that the hardening of global crude oil prices poses a major upside risk to the outlook for price gains, monetary authorities appear to have plumped for backing their own optimistic assumptions. An expected softening in vegetable prices on account of winter arrivals, and the improving prospects for foodgrains production have prompted them to posit that the “improving inflation outlook” gives them comfort to continue to keep policy ‘growth supportive’. With the MPC’s forecast for inflation to average 4.5% over 2022-23 predicated on another significant uncertainty, a normal monsoon, the RBI’s rate setting panel has risked forsaking its primary mandate of ensuring price stability at the altar of imparting a monetary impetus to the economy. At a time when inflation is at multi-decadal highs in a number of countries, prompting several major central banks including the Federal Reserve in the U.S. to start normalising policy, there is a real danger of the RBI falling behind the curve.

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U.S. President Biden should not buckle to pressure from irate anti-vaccine campaigners

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