

**CEA: time to change monetary stance**

Fanning inflation: If growth happens, output gaps will start narrowing, says Arvind Subramanian. Sandeep Saxena

Chief Economic Adviser Arvind Subramanian on Monday acknowledged that the country's monetary authorities had little choice now but to adopt a policy stance that let them tamp down promptly on re-emerging inflationary pressures.

Once a strong votary for sharp interest rate reductions to support growth, Dr. Subramanian said circumstances had changed, warranting a reappraisal of the central bank's policy stance.

"The Indian economy, for about a period of 18 months, could have benefited from lower interest rates. In the period when we had very very high real interest rates and the economy was weak, that was a phase where we could have seen much lower rates," he said.

**'Cycle has turned'**

"Now clearly the cycle has turned, inflationary pressures have re-emerged. So it is not just the fact inflation is picking up but also the fact if growth happens the output gaps will also start narrowing. From both those perspectives the stance of the monetary policy naturally has to change. As Keynes famously said, as facts change, I change my opinion. So I think there is a change in the underlying facts."

Bond yields rose following the comments with the yield on the benchmark 10-year government bond climbing 13 basis points to close at 7.44%. (One hundred basis points equal one percentage point.)

The economic survey on Monday flagged the risks from rising oil prices.

"Average oil prices are forecast by the IMF to be about 12% higher in 2018-19, which will crimp real incomes and spending — assuming the increase is passed on into higher prices," it said.

Consumer price index based inflation, the central bank's primary yardstick for monetary policy formulation, accelerated to a 17-month high of 5.21% in December, driven by surging food prices. The reading for retail inflation was just below the Reserve Bank of India's (RBI's) upper tolerance limit of 6%.

The monetary policy committee of the RBI has held its key policy rate, the repo rate, unchanged at 6% at its last two meetings while retaining a 'neutral' stance.

The panel is set to meet next to review policy on February 7.

**END**

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com