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UNWAVERING FOCUS: THE HINDU EDITORIAL ON THE MONETARY POLICY COMMITTEE’S APPROACH TO POLICY

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The Monetary Policy Committee (MPC)’s latest decision, to extend the pause in the Reserve Bank of India (RBI)’s monetary tightening while staying focused on the withdrawal of accommodation, reflects the rate setting panel’s reassuring resolve to keep inflation front and centre of its approach to policy. RBI Governor Shaktikanta Das was unequivocal in asserting that “the best contribution of monetary policy to the economy’s ability to realise its potential is by ensuring price stability”. The MPC’s recent unwavering focus on price stability is informed largely by its mandate to achieve the Consumer Price Index (CPI) inflation target of 4%, a goal that it has struggled to actualise right since January 2021 — a period during which inflation remained stuck above or close to the upper tolerance band of 6% in 20 of the 27 months. Mr. Das acknowledged that even as headline inflation had eased appreciably in March and April, slowing to 4.7% in the first month of the current fiscal year from the bruising 6.7% average pace in 2022-23, retail price gains were ‘still above the target and expected to remain so according to the RBI’s projections for 2023-24’. The MPC, which has forecast CPI inflation to average 5.1% over the 12 months ending in March 2024, is cognisant of the continuing challenges in aligning inflation with the target, given the global uncertainties.

Specifically, Mr. Das flagged the spatial and temporal distribution of rainfall during this monsoon in the wake of El Niño conditions, unabated geopolitical tensions, uncertainty over international commodity prices including those of sugar, rice and crude oil, and the volatility in global financial markets as upside risks to the MPC’s inflation projections. Another key factor feeding into the RBI’s policy approach is its conviction that macroeconomic fundamentals have strengthened after the unrelenting focus on preserving price and financial stability. To be sure, the increase in credit costs since the RBI started raising its benchmark interest rates in May 2022 appears to have retarded investment and consumption activity last year. Bank credit data show the pace of growth in loans to industry, particularly the MSME and medium sectors, slowed appreciably last year. The sequential contraction in estimated private consumption spending in the fourth quarter of the last fiscal year is also likely to have been, to some degree, a fallout of the higher borrowing costs. Still, as Mr. Das emphasised, policymakers can ill afford to take their eyes off inflation. Price stability is after all a public good and achieving durable disinflation must remain a non-negotiable goal, especially amid widening income inequality and high levels of joblessness.

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