



A valid pause

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A valid pause-While holding rates, the RBI has wisely stuck to its policy stance of 'calibrated tightening'

- The Reserve Bank of India's decision to leave interest rates unchanged, given easing inflation and the slowdown in economic momentum, was both expected and reasonable.
- In fact, the RBI was prompted to sharply lower its projection for price gains after an unexpected softening in food inflation and a collapse in oil prices in a surprisingly short span of time — the price of India's crude basket tumbled almost 30% to below \$60 by end-November from \$85 in early October.
- The monetary policy committee (MPC) now estimates retail inflation in the second half of the fiscal year to slow to 2.7%-3.2%, at least 120 basis points lower than its October forecast of 3.9%-4.5%.
- The MPC's decision to stand pat on rates must also have been bolstered by the findings in the RBI's November survey of households' inflation expectations: the outlook for price gains, three months ahead, softened by 40 basis points from September.
- On growth, the monetary authority has largely stuck with its prognosis from October, while flagging both external and domestic risks to momentum as well as the likely sources of tailwinds.
- Among the positives cited, beyond a likely boost to consumption demand and corporate earnings from softer fuel costs, are two key data points from the RBI's own surveys.
- Interestingly, and justifiably so, the RBI has opted to keep the powder dry by sticking to its policy stance of 'calibrated tightening'.
- Given that its primary remit is to achieve and preserve price stability, the central bank is wary of the uncertainties that cloud the inflation horizon.
- For one, with the prices of several food items at "unusually low levels", the RBI reckons there is the clear and present danger of a sudden reversal, especially in prices of volatile perishable items.

- Also, the medium-term outlook for crude oil is still quite hazy, with the possibility of a flare-up in geopolitical tensions and any decision by OPEC both likely to impact supplies.
- Fiscal slippages risk impacting the inflation outlook, heightening market volatility and crowding out private investment.
- Instead, this may be an opportune time to bolster macroeconomic fundamentals through fiscal prudence.

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