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RBI releases Minutes of Technical Advisory Committee on Monetary Policy

The Reserve Bank of India today released on its website the minutes of its Technical Advisory Committee (TAC) on Monetary Policy.

Since February 2011, the Reserve Bank has been placing the main points of discussions of the TAC on Monetary Policy meetings in the public domain with a lag of roughly four weeks after the meeting.

Minutes

The twenty-ninth meeting of the Technical Advisory Committee on Monetary Policy (TAC) was held on July 25, 2012 in the run-up to the First Quarter Review of Monetary Policy 2012-13 on July 31, 2012. The main points of discussion in the meeting are set out below.

1. Members were unified in their assessment of the global macroeconomic environment. They felt that the evolving global situation is much worse than it was at the beginning of the year. US growth is decelerating, the European crisis appears to be deepening, although Europe has shown commitment to the Union, and there is increasing evidence of China's growth slowdown. They felt that global growth is likely to slow down further. With droughts in the US, Eurasia and Australia, global food stocks are likely to go down to all-time lows, and global food inflation could be high. Although softening of oil prices has helped India and there is some evidence of improvement in oil

supplies, inflationary pressures could spill over to metal, oil and other commodities, if there is further quantitative easing in the US or Europe.

2. On domestic macroeconomic concerns, Members felt that the current situation is by far the most difficult, in the last several years. Infrastructural bottlenecks in power, coal, and transport seem to have worsened, causing serious supply side pressures. With weaknesses in power and aviation sectors, public-private-partnership projects are getting impacted, which entails the risk of lowering private investment in infrastructure. The manufacturing sector is at a standstill, with not only the capital goods industry in a bad shape, but also the short-cycle consumer products registering a contraction. Due to weak monsoon, there could be a shortfall in the output of the agricultural sector. In sum, Members felt that there is growing evidence of slowdown of domestic growth.

3. All Members felt that with the monsoon failure, food prices might go up significantly due to a substantial agricultural shortfall. One Member felt that the high food stocks could restrain upward pressure on foodgrain prices but another Member felt that they might not be of much help because of part of the stocks not being of edible quality. Wage pressures remain significant, particularly in rural areas. Moreover, structural problems, such as those in proteins items, are keeping non-core inflation high. Additionally, inflation concerns stem from suppressed inflation and tightening supply bottlenecks in infrastructure. The economy is in a bind with slackening growth and elevated inflation, but the remedies, Members felt, lie with the Government.

4. On the fiscal front, many Members apprehended that there could be a slippage in the fiscal deficit in 2012-13. According to some Members, diesel price revision to contain subsidies looks very difficult due to the looming drought situation. Members also felt that the twin deficits remain a serious concern for India.

5. Most Members observed that India's external sector concerns had increased considerably. FDI has slowed down while the current account deficit (CAD) remains high, although there was some improvement in the last quarter as international oil prices and gold imports fell. Unless big-ticket FDI projects get clearance, the situation is unlikely to improve. Members, however, cautioned against excessive reliance on short-term foreign debt to finance the CAD.

6. Members had divergent views on monetary policy and liquidity measures. Of the seven external Members, five suggested that the Reserve Bank should not change the policy rate. They felt that given the fiscal dominance, double-digit consumer price inflation and no realistic expectation of credible action from the Government, the Reserve Bank needs to focus on tempering inflation expectations. Of these five Members, one suggested that adequate liquidity should be available in the system to support growth for which either the cash reserve ratio (CRR) should be reduced by 25 basis points or the open market operations (OMOs) should be more active. Another Member was of the view that the CRR is already low and it might be preserved for a worse situation, but more aggressive OMOs could be used to improve reserve money growth and further ease the liquidity conditions.

7. The remaining two of the seven external Members suggested that there could be a symbolic reduction in the policy rate by 25 basis points to stimulate investment. One of them also suggested a reduction in the CRR by 25 basis points.

8. The meeting was chaired by Dr. D. Subbarao, Governor. Other internal Members present were: Dr. Subir Gokarn, Vice-Chairman, Deputy Governors, Dr. K.C. Chakrabarty, Shri Anand Sinha and Shri H.R. Khan; and external Members, Shri Y.H. Malegam, Dr. Rakesh Mohan, Prof. Indira

Rajaraman, Prof. Sudipto Mundle, Prof. Errol D'Souza and Prof. Ashima Goyal. Dr. Shankar Acharya could not attend the meeting but submitted his written views. RBI officials, Shri Deepak Mohanty, Dr. Michael D. Patra, Dr. Janak Raj, Dr. B.K. Bhoi, Shri B.M. Misra and Shri Pardeep Maria were in attendance.

Alpana Killawala
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