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Niti Aayog meet: Economists call for rate cut, steps to boost liquidity

PRASANTA SAHU
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WITH RETAIL INFLATION continuously undershooting the target, the Reserve Bank of India should immediately cut interest rate to support economic growth while taking measures such as lowering cash reserve ratio (CRR) of banks to inject enough liquidity into the system, many economists said at an internal meeting of Niti Aayog on Thursday.

Inflation averaged 4.3% in the first half of FY19, below the RBI's range of 4.7%-5.1% from its April monetary policy statement. At a 17-month trough of 2.33% in November, inflation is underneath the 3.9% lower end of the range for the second half. The RBI's target is to keep inflation at 4% over the medium term.

Lower inflation rate brightens the prospect of a change in the monetary policy panel's current stance of 'calibrated tightening' in its next meeting in February, given the new RBI governor Shaktikanta Das' emphasis on growth and his view that inflation remains benign. Das was named governor within 24 hours of the resignation of his predecessor Urjit Patel.

Among the 20 economists who attended the Niti Aayog's 'Economists Huddle' were former member of the prime minister's economic advisory council Surjit Bhalla, Crisil chief economist Dharmakirti Joshi, IDFC Bank chief economist Indranil Pan and Yes Bank chief economist Shubhada Rao.

"The latest quarterly GDP figures show a slowing economy, dampened consumption growth and hence no excess demand pressures. RBI should move swiftly to cut interest rates," said Vedanta chief economist Dhiraj Nayyar, who attended the meeting, chaired by Niti Aayog vice-chairman Rajiv Kumar. It should also reduce CRR for an immediate injection of liquidity in the system, Nayyar added.

For much of this year, the Patel-led RBI was seen resisting pressure as well as entreaties from the government, industry and financial firms to ease lending and capital norms for stressed public sector banks, particularly those under the prompt corrective action framework, open a special liquidity window for non-banking financial companies with a precarious asset-liability position and push the flow of credit to small enterprises.

In his inaugural press conference on Wednesday, Das refused to dwell on any of these specific issues that caused the strain in the relationship between the government and the RBI.

According to a Nomura report: "Overall, the new RBI governor's first speech confirms our initial impressions. He is likely to be more communicative and consultative in his approach, which is a positive. On policy, it does appear that he is likely to relax regulatory norms for banks (make them more counter-cyclical) and he will be more proactive in injecting liquidity.

"His focus on growth and his view that inflation remains benign confirms our view that he is more neutral to dovish on monetary policy and supports our view of a reversal in the policy stance to 'neutral' in early 2019, followed by an actual rate cut in 2019 (we currently expect a 25bp cut in Q3)."

India's gross domestic product (GDP) expanded at a lower-than-expected 7.1% in September quarter (Q2) of the current fiscal, as a deceleration in key service industries that began in the final quarter of last fiscal persisted, private consumption slowed down and the drag-down effect of 'net exports' aggravated. The latest data prompted analysts to pare down their forecasts for the second half of the year.

Economists also expressed concern over lower prices realised by farmers for their produce than the minimum support prices, which are at least 50% more than the production cost under new policy. They suggested that instead of procuring it, farmers should be paid in cash directly the difference between market price and MSP.