

MPC sees economic revival this year


Despite concerns over likely rise in inflation, rate-setting panel is optimistic about manufacturing growth

Mumbai: Members of India's rate-setting panel are optimistic that Asia's third-largest economy will rebound this year with the output gap closing, a factor that is likely to boost inflation in coming months.

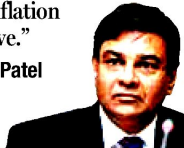
The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) members flagged several concerns, including an increase in minimum support prices for farmers and high and volatile crude oil prices, the minutes released on Thursday showed.

The RBI this month kept its policy repo rate unchanged at 6% for the fourth straight meeting and retained its 'neutral' stance.

A majority of the six-member MPC flagged upside risks to inflation, according to minutes of the April 4-5 meeting, when the Reserve Bank of India (RBI) retained the benchmark repurchase rate at 6% as expected. Five

 Inflation has moderated in recent months, several upside risks to inflation persist. I would like to watch how various risks to inflation evolve."

Urjit Patel



of the six members voted for the decision, while one sought a hike. It also kept its neutral policy stance.

Governor Urjit Patel said there are clear signs of revival in the manufacturing sector strengthening. His deputy Viral Acharya turned more hawkish, saying he is likely to shift decisively to vote for a beginning of "withdrawal of accommo-

 I have moved substantially closer to switching from neutral stance to the process of withdrawal of accommodation."

Viral Acharya



modation" in the next MPC meeting in June.

"Reinforcement of inflation-targeting credibility that such a shift would signal is crucial in my view for prudent macroeconomic management, on both the domestic and external sector fronts," Acharya said.

Policymaker Michael Patra, who is a career central banker and heads the RBI's

 I maintain my vote for a 25 bps increase.

The main risks to the achievement of the target are festering in the category of CPI excluding food and fuel."

Michael Patra



research department that makes the inflation forecasts, voted for a rate hike. Patra, who reports to Acharya, said there are indications the capex cycle is gradually starting up.

Echoing Acharya, Patra said that despite ebbing inflation in the past few months, an easier or neutral monetary policy stance would delay achieving the

inflation target.

"Underlying macroeconomic developments impart some urgency to commencing the withdrawal of accommodation," Patra said.

The central bank's medium-term inflation target has been set at 4%. "The minutes of the MPC's meeting has a distinctly hawkish tinge as compared to our reading of the statement itself," said Aditi Nayar, the principal economist of rating agency Ibra.

"While incoming data and policy decisions related to factors such as MSPs, excise on fuels and expenditure announcements remain critical, today's minutes suggest that a back-ended rate hike in 2018 remains a possibility if headline inflation exceeds the trajectory set out by the MPC.

"As a result, bond yields are likely to harden in the immediate term."

Data released after the monetary policy meeting

showed retail inflation rate eased to 4.28% in March - a number that has been moderating since it hit a 17-month high of 5.2% in December.

During the policy meeting, the central bank lowered its April-September inflation projection to 4.7-5.%, from a previous range of 5.1-5.6% that it released in February.

For the second half of this fiscal year, the MPC said it saw inflation at 4.4%, but that was without taking into account any increase from higher housing allowances to government employees.

Two weeks ago, Patel and his MPC lowered inflation projections, raising expectations that interest rates will be on hold for sometime to come. That may boost flagging investments and demand, both of which were hit by a cash ban imposed in late 2016 and the chaotic implementation of a consumption tax last year. —Agencies