

Inflation a hurdle for easy money policy: RBI

RBI governor Raghuram Rajan on Monday said high inflation is limiting the central bank's ability to boost growth with an accommodative monetary policy.

"The outlook for the economy has improved, with export growth regaining momentum, but growth is still weak. The challenges of containing inflationary pressures limit what the monetary policy can do," Rajan said in his foreword to the half yearly Financial Stability Report 2013 released on Monday.

The report said a modest improvement in growth is envisaged in the second half of the current fiscal on the back of good monsoon which has boosted the prospects of summer crops and higher exports.

"To maintain the momentum gained by the respite, it is imperative that long-delayed legislative reforms are pushed through, stalled infrastructure project clearances continue and fiscal consolidation remains on track," Rajan stressed.

It can be noted that the RBI has increased its key rates twice in the last three monetary policy reviews citing concerns emanating from high inflation while Rajan stayed away from increasing it for the third time earlier this month and chose to wait for clarity on data.

The headline inflation by wholesale prices stood at 7.52% in November, a 14-month high, while the same by consumer prices rose to a nine-month high of 11.24%.

The growth inched up to 4.8% for the second quarter of the fiscal. The government is hoping the growth will touch the 5% mark for the entire fiscal, which is also below potential.

"Some moderation is expected in food inflation going forward, (but) persistence of retail inflation remains a concern," the report said, adding "persistently high inflation" and the consequent pressure on interest rates poses a downside risk to growth.

The high fiscal deficit and fall in domestic savings are also major concerns, the report said.

It said the revival of the fiscal responsibility legislation and a reduction in government borrowings can complement financial market development and improve confidence in the economy by way of disinflationary trends.

Quoting from an earlier RBI report on the Systemic Risk Survey, today's report said risks of a sovereign downgrade have also receded along with risks arising from CAD, which it pegged at under 3 per cent of the GDP this fiscal from a record 4.8% last year.

(Times of India)