

RBI's move signals beginning of shift in monetary stance: FinMin

The finance ministry on Thursday said the Reserve Bank of India (RBI)'s move to cut the repo rate by 25 basis points signals a shift in the direction of monetary policy and would provide a fillip to the economy.

The decision will lead to more money in the hands of the consumer, for greater spending, Finance Minister Arun Jaitley said.

“It is positive for the economy and will certainly help revive the investment cycle the government is trying to restore,” said Jaitley, who has been nudging the central bank to ease interest rates, to lower the cost of capital.

Later, in a statement, the ministry said RBI's step was consistent with strong and ongoing disinflationary trends identified in the former Mid-Year Economy Analysis for 2014-15, presented in Parliament last month.

“This is a significant move in signalling a shift in stance and direction for policy as RBI's statement has noted,” the ministry said.

“It should also help indirectly by improving the balance sheet of the corporate sector and banks, facilitating an increase in the demand and supply of credit,” it said.

The ministry further stated, along with policy actions already taken by the government and those under consideration, “This move represents one more step towards reviving investments and realising India's medium-term growth potential”.

Chief economic adviser Arvind Subramanian, who along with his team penned the Mid-Year Analysis, said the move indicated a shift in the monetary stance.

Consumer price index (CPI)-based inflation fell to an all-time low of 4.38 per cent in November and rose marginally to five per cent in December. Also, the wholesale price index remained stagnant in November, though inflation stood at 0.11 per cent in December.

Subramanian said lower oil prices, weak demand and slowing rural wages were expected to keep inflation in check, opening a window for more rate cuts.

“We can expect strong disinflation ... Therefore, that will create the room for possibly more monetary policy easing.”

RBI had targeted CPI inflation to be eight per cent by January 2015 and six per cent by January 2016.

Minister of State for Finance Jayant Sinha said further rate cuts would depend on data, economic factors and further government initiatives.

He said he was not surprised by the cut and the move demonstrated good execution. “The RBI rate cut does not reflect growth concerns but moderating inflation. There are strong indication that the economy is turning,” he said.

“The rate cut has definitely given a positive message and I appeal to industries to take it as a very positive cue, that revival of the economy is now on a sustained trajectory and it shall move forward and therefore I welcome this,” said commerce and industry minister, Nirmala Sitharaman, in Jaipur on Thursday.

India’s economic growth rate slowed to 5.3 per cent in the second quarter of the current financial year against 5.7 per cent in the first quarter. The economy expanded 5.5 per cent in the first half against a sub-5 per cent growth rate in the previous two years each.

Union road and highways minister Nitin Gadkari described the rate cut as a “good step”.

“It is a good start. We were expecting this for a long time. This is a good step because interest cost in our country as compared to the dollar and yen is higher. So, the RBI decision is very helpful for the road and shipping sectors. We welcome this decision and our industry is expecting more,” Gadkari said.

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