



EDITORIAL: THE HINDU

GENERAL STUDIES 3: ECONOMY

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RBI's Monetary Policy Decision

Rate Cut After Five Years

- **Repo Rate Reduction:** The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) unanimously cut the benchmark repo rate from 6.50% to 6.25%.
- **Neutral Stance:** The RBI maintained a neutral stance, signaling a shift from its previous decision to hold rates steady.

Reasons for the Rate Cut

- **Inflation Moderating:** Inflation dropped to 5.2% in December (from 6.2% in October), though it remains above the RBI's 4% target.
- **Weak Economic Growth:** GDP growth in Q2 was sluggish at 5.4%, and growth projections for 2024-25 are at a four-year low of 6.4%.
- **Focus on Growth:** The RBI prioritized economic expansion over inflation control, citing global uncertainties like stalled disinflation and a stronger dollar.

Inflation and Growth Outlook

- **Inflation Projections:** Inflation is expected to average 4.8% in 2024-25 and further ease to 4.2% in 2025-26.
- **Key Assumptions:** A normal monsoon, favorable food inflation trends, and bumper harvests of key vegetables (tomato, onion, potato) are expected to help control price spikes.

Global and Domestic Challenges

- **Global Uncertainties:** Stalled disinflation, delayed rate cuts in the U.S., and a stronger dollar are pressuring emerging markets, including India.
- **Domestic Concerns:** Weak economic growth, especially after the Q2 slump, is a pressing issue, with limited signs of recovery.

Alignment with Fiscal Policy

- **Post-Budget Coordination:** The RBI's policy stance aligns with the government's fiscal measures, aiming for monetary and fiscal policies to work together.



- **Stimulus Impact:** It remains uncertain whether the Budget's stimulus measures and the rate cut will revive consumption, attract private investment, and boost growth.

Suggestions for Improvement

- **Timely Data Integration:** The MPC could adjust its bi-monthly meeting schedule to incorporate the latest inflation data, making policy decisions more responsive and data-driven.
- **New Leadership:** With a new RBI Governor and an upcoming Deputy Governor appointment, there is an opportunity to refine the MPC's approach.

Conclusion

The RBI's decision to cut the repo rate after five years reflects a shift in focus from inflation control to supporting economic growth. While inflation remains above target, moderating trends and favorable assumptions about food prices and monsoons provide room for optimism. However, global uncertainties and weak domestic growth pose significant challenges. The alignment of monetary and fiscal policies is a positive step, but the effectiveness of these measures in reviving growth remains uncertain. Adjusting the MPC's review schedule to incorporate real-time data could enhance the RBI's ability to make timely and justified policy decisions.

Source: <https://www.thehindu.com/opinion/editorial/growth-over-inflation-on-economic-expansion-over-inflation-control/article69192608.ece#:~:text=The%20interest%20rate%20cut%20signals,Bank%20of%20India's%20immediate%20priorities&text=For%20the%20first%20time%20in,from%206.50%25%20to%206.25%25.>