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# FALLING BEHIND: THE HINDU EDITORIAL ON MONETARY POLICY COMMITTEE AND INFLATION

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The Monetary Policy Committee's decision to hold benchmark interest rates level, while raising its forecast for full-year GDP growth by 50 basis points and flagging food price shocks-induced volatility in inflation, is replete with the risk of policymakers falling behind the curve on anchoring inflation expectations. Notably, after observing that "uncertainties in food prices along with unfavourable base effects are likely to lead to" headline inflation quickening in November-December, and that "recurring food price shocks are impeding the ongoing disinflation process", the MPC has rather surprisingly opted to keep the RBI's repo rate unchanged at 6.5% for a fifth straight bi-monthly meeting. To be sure, retail inflation has moderated since the MPC last met in early October, with the headline reading softening by almost two percentage points, from August's 6.83% to 4.87% in October. But, by the MPC's own reckoning, that moderation may be fleeting, as price gains accelerate yet again in November and December, and with volatility in oil prices and financial markets, amid heightened global uncertainty, there are added risks to the outlook on prices. The RBI's latest 'Households' Inflation Expectations Survey', undertaken in November, reveals that most households expect faster inflation in the three-months- ahead and one-year-ahead time horizons, and at median levels of 9.1% and 10.1%, respectively, unequivocally underlining the fact that price gain expectations are still far from durably anchored.

The dissonance in messaging from the central bank is exemplified in the MPC's decision to upgrade its projection for real GDP growth in the fiscal year ending in March 2024 to 7%, from 6.5% as recently as in October. For this, it cites robust investment, besides continued strengthening in manufacturing, buoyancy in construction and a gradual rural recovery that it sees helping 'brighten the prospects of household consumption'. If the RBI's cumulative 250 basis points increase in the benchmark interest rate since May 2022 through to February 2023 and the subsequent retention of the 6.5% rate have not damped the growth impulses barring consumption, then it would indicate that consumption is still struggling to gain traction largely because, as Deputy Governor Michael D. Patra observed at the MPC's last meeting, "people are not increasing discretionary spending in view of high inflation". This seems to be borne out in the RBI's November round of its bi-monthly 'Consumer Confidence Survey', which showed consumers retained negative sentiments on both current and future price conditions. With policymakers only too well aware that sans price stability, as Mr. Patra noted, "the benefits of expanding GDP and employment will be frittered away by the erosion of purchasing power", the MPC has its task cut out.

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