

Optimistic assessment

RBI should avoid having to choose between taming inflation and pushing for growth

Less than a fortnight after the RBI announced its latest monetary policy, a team of its officials has provided an optimistic assessment of the 'State of the Economy' in the August issue of the central bank's monthly bulletin. Pivoting from what the bank posited on August 6 when it said, "the outlook for aggregate demand is improving, but still weak and overcast by the pandemic", the officials led by Deputy Governor Michael D. Patra asserted that aggregate demand conditions had been buoyed by pent-up demand released by unlocking and vaccination. And, evidence that the economy was gaining traction could be seen in "manufacturing activity gradually turning around even as the contraction in services had moderated", they wrote. The authors of the article have arrayed several high-frequency indicators including E-way bills, toll collections, fuel consumption, automobile dispatches and registrations, and rail freight volumes to buttress their view that demand is regaining momentum. The team has also pointed to a private forecaster's data showing a sizeable sequential decline in the unemployment rate last month – to 6.95% from 9.17% in June, and that with a pronounced rural bias – to posit that this reflects the "resilience of the rural sector on brightened agricultural prospects". But the authors elide over the fact that the CMIE, whose survey-based unemployment rate they have cited, is far less sanguine about the addition of approximately 16 million jobs in July.

CMIE MD Mahesh Vyas contends in an analysis that "all the additional employment provided by India in July was of poor quality" while better quality salaried jobs shrank by 3.2 million, noting that the bulk of the rural jobs added were of temporary farm labour linked to delayed *kharif* sowing. The RBI officials also throw no additional light on the concerns that earlier this month prompted the central bank's Monetary Policy Committee (MPC) to cut its own June forecast for GDP growth in the second, third and fourth fiscal quarters by between 0.5 and 0.9 percentage points. On inflation too, the article's authors have pitched an upbeat prognosis citing July's 70 basis points month-on-month deceleration in retail price gains to 5.6% as "reinforcing the view that the recent upsurge has peaked and the worst would be behind us". However, official food price data for the August 1-12 period reveals an uptick in cereal prices, while edible oils continue to see price pressures after July's 32.5% inflation rate for oils and fats, belying the authors' optimism. The RBI Deputy Governor overseeing monetary policy admits the internal dilemma at the MPC observing that ultimately the policy decision was "a judgment call" as any move to tame inflation by one percentage point would mean 'sacrificing' 1.5-2 percentage points of GDP growth. In postulating an either-or trade-off, monetary authorities risk achieving neither goal and sending the economy into a harder to redress state of 'stagflation'.