

Quick comment on RBI mid-quarter review (September 17, 2012)

RBI mid-term review comes amid some **positive signals** namely:

- Reform measures undertaken by GOI, viz.,
 - reducing fuel subsidies on diesel and LPG,
 - selling minority stakes in public enterprises,
 - creating an enabling environment for FDI inflows in multi-brand retail, broadcasting and aviation sectors.
- Measures undertaken by European Central Bank for putting in place a mechanism of lender of last resort for troubled countries in the EU and greater regulation of the central banks of member countries of EU.
- Greater liquidity positive signals given by US Federal Bank aimed at providing stimulus to the economic activity.

And some **areas of concern**, such as:

- Hardening of international crude prices and likely to remain so with infused global liquidity, moderation of growth in major emerging and developing economies (including China where Q2-2012 growth has been the lowest in the last 3 years) and drought like condition in most part of the world – is likely to have continued inflationary push on global prices of food and commodities.
- Moderation in Money supply (M3) indicative of slowing down of economic activity. The credit deposit gap is likely to widen with increasing demand for credit with the seasonal pick-up in demand for credit and outgo on account of advance tax payments.
- Headline WPI inflation remaining sticky in 7.5% range. The fiscal deficit and current account deficit continue to remain at a high level.
- Some extent of political uncertainty as a result of the opposing views taken to the reform initiatives by the major political parties.

As the cumulative impact of the above measures on economic growth, investment sentiments, FDI inflows, foreign currency, inflationary trend, etc. pans out, RBI has introduced additional liquidity by reducing CRR by 0.5% with effect from reporting Friday of September 22, 2012, releasing about Rs. 17000 crore. This may pave way to a more aggressive stand in the October '12 should the situation so demands.