

FICCI Comments on Monetary Policy

RBI cuts CRR from 6% to 5.5%

New Delhi, January 24, 2012: “The RBI decision to reduce the CRR from 6% to 5.5% is a welcome step” says **Mr R V Kanoria, President, FICCI**. However, given the uncertain growth prognosis for the current fiscal, a cut in repo rate may have acted as a strong enabling factor in spurring investment activity, opines, Mr R V Kanoria.

The RBI policy statement acknowledges that the current slowdown in industrial performance apart from global headwinds is also attributable to several domestic factors – the unhealthy fiscal situation, high interest rates and policy and administrative uncertainty. “While we appreciate and share the same concerns as the RBI, this reinforces our perception that a push to investment activity through policy measures is needed”, feels Mr. Kanoria.

The policy statement is unequivocal in so far as fiscal consolidation is concerned and argues that the same is necessary to create an adequate space for the RBI to lower the policy rates in response to decelerating private consumption and investment spending. “FICCI does believe that such credible fiscal consolidation should be prioritised in the forthcoming Union Budget”, says Mr Kanoria.

“The rupee has pulled back significantly in the last fortnight and it could also be a comforting factor going ahead as far as the imported inflation component of core inflation is concerned”, feels, Mr. Kanoria. Interestingly as per FICCI research, the RBI concerns regarding the elevated core inflation levels (at 7.8% in Dec’11) is explained by the fact that the imported inflation component of core inflation has increased significantly from Aug 11 onwards (when the rupee started depreciating). Interestingly, food inflation that was running at 20.5% in Apr’10 has now declined to as low as 0.7%.

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