With growth momentum dwindling, sharp cut in monetary policy rates is now imperative says R V Kanoria, President, FICCI

March 3, 2012, New Delhi. Indian economy is at an inflection point. With quarterly GDP growth numbers showing a declining trend from 7.7 per cent in Q1, 2011-12 to 6.9 per cent in Q2, 2011-12 and further to 6.1 per cent in Q3, 2011-12, there is an imperative need for some strong policy actions to reverse this ominous trend. "***The latest GDP figures have already raised a question mark over growth projections for the fiscal 2011-12. This would also have a huge bearing on prospects for employment generation. Hence, any further delay in bringing down the key monetary policy rates by RBI could prove to be critical for the country's growth trajectory***", **observed Mr. R V Kanoria, President, FICCI.**

"In the upcoming mid-term monetary policy review, we would like the central bank to place much greater emphasis on growth. In its last review, RBI introduced a cut of 50 basis points in CRR. While this was encouraging, in light of the tightening liquidity situation in the system due to excess government borrowing and the rapidly deteriorating growth momentum, industry would like to see a cut of another 50 basis points in CRR and 50 basis points reduction in repo rate in the next policy review",**he added.**

The confidence level of corporate India, as reflected in FICCI's recent Business Confidence Surveys, is flagging. Also, give the state of public finances, it is difficult to expect the central government to stimulate economic and industrial activity in any reasonable manner. While the government will have to drive the reforms agenda further, this will have to be complimented by suitable adjustments in interest rates by RBI. These will have a salutary impact on growth and help India move back to the high growth trajectory as was seen during the period 2003-04 to 2007-08.

FICCI for long has been advocating that inflation in India is largely a supply side phenomenon. The high and rising prices in case of agricultural products, particularly protein rich items, seen in the last two years are a manifestation of a demand-supply mismatch as much as of a weak marketing and distribution infrastructure. These issues cannot be dealt with by tightening of the monetary policy.

Further, even in case of manufactured goods, which have been seeing inflationary pressures, the solution lies in building up capacities and lining up new investments. ***"It is ironical that in a growing economy, which requires investments in ramping up production of all kinds of goods – basic, intermediate and capital goods – RBI's moves have just had an opposite effect. And that is limiting investments in capacity creation, stalling of projects and scaling down of operations. If fresh capacities do not come on board then automatically there will be shortages leading to higher prices even in case of manufactured products. RBI needs to pay adequate attention to this perspective as well",*** **said Mr. Kanoria.**

The growth trends seen today are reminiscent of the period 2007 and 2008 as even then RBI had tightened monetary policy levers to curtail inflation that largely emanated on the back of supply side issues. While the real impact on inflation was not all that evident, there was definitive impact seen on industrial growth that dwindled over time. Recent numbers on industrial production also show that industrial growth has slowed down from 8.3 per cent during April-December 2010 to 3.6 per cent during April-December 2011. This weakening of the growth momentum is pervasive with both investment demand – reflected in the growth of capital goods – sharply declining from 18.4 per cent in April-December 2010 to (-) 2.9 per cent in April-December 2011 and consumption demand – reflected in the growth of consumer durables – moderating from 13.8 per cent during April-December 2010 to 5.3 per cent in April-December 2011.

"A cut in both the CRR and the repo rate at this juncture would ease the liquidity pressure in the system and oblige banks to lower their lending rates for both industrial borrowers and consumers. This would set the stage for a much needed recovery and repose confidence amongst corporates both from India and those abroad in the country's growth story", **emphasised Mr. Kanoria.**

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