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Minutes of the April 11, 2012 Meeting of the Technical Advisory Committee on Monetary Policy

The twenty-eighth meeting of the Technical Advisory Committee on Monetary Policy (TAC) was held on April 11, 2012 in the run up to the annual Monetary Policy 2012-13 on April 17, 2012. The main points of discussion of the meeting are set out below.

1. Members had divergent views on the global macroeconomic environment. While some members felt that the global macroeconomic situation was better than it was a few months back, some others were of the view that there was no improvement. Many members felt that the risk of an event shock in the euro area had receded significantly after the large liquidity injection by the European Central Bank (ECB), although the crisis was far from over.
2. Discussing the domestic macroeconomic developments, members felt that the prevailing macroeconomic situation was a cause of concern. The GDP growth had decelerated. Investment activity, in particular, had declined sharply. Most members indicated that the slowdown had more to do with supply side constraints, administrative delays and infrastructural bottlenecks, than to monetary tightening. The prospects of growth in 2012-13 were not so encouraging given the overall investment climate. Most members, therefore, felt that the authorities need to take urgent steps to address various constraints, affecting the growth prospects.
3. Members noted the significant moderation in both headline and non-food manufactured products inflation. However, they were concerned with several upside risks to inflation from global commodity prices, high fiscal deficit, suppressed inflation and sharp increase in real rural wages. Some members felt that inflation in India was high not only with respect to other emerging and developing economies (EDEs), but also with respect to our own past record. This had adversely affected our export competitiveness.
4. All the members of Committee expressed concerns over the fiscal situation. The high fiscal deficit and consequent large market borrowing programme could put pressure on interest rates and crowd out private sector credit. Many members feared that there could be a slippage in the fiscal deficit in 2012-13. They felt that the administered prices needed to be raised to signal the Government's commitment to contain the fiscal deficit to the budgeted level.

5. Most members were of the view that there was a need for heightened vigilance on the external front. The high twin deficits (current account and fiscal) combined with persistently high inflation for about two years have made the economy more vulnerable to external shocks. It was underscored that the Reserve Bank should assign more weight to preserving external stability. Our policy should be more proactive in managing current account deficit (CAD) risks. In this context, some members felt that the reliance on short-term and debt-creating flows be avoided to finance the CAD. Instead, the focus should be on bringing down the CAD to a sustainable level. These members were of the view that in the presence of significant inflation differential between India and the rest of world and subdued capital inflows, the exchange rate should be allowed to depreciate.
6. Members had divergent views on monetary policy and liquidity measures. Of the six external members who attended the meeting, four members suggested that the Reserve Bank should continue to pause. They felt that unless supply side constraints were addressed and relevant measures were taken to revive investment activity, the reduction in the policy rate would not have any impact. Of these four members, one member suggested that the cash reserve ratio (CRR) be reduced by 50 basis points, another member was of the view that the CRR was already at a low level and that it should be used sparingly while the other two members did not suggest any change in the CRR. The other two of the six external members suggested that the policy rate be reduced by 25 basis points. One of them also suggested a reduction in the CRR by 50 basis points. One external member could not attend the meeting.
7. The meeting was chaired by Dr. D. Subbarao, Governor. Other members present were: Dr. Subir Gokarn, Vice-Chairman, Dr. K.C. Chakrabarty, Shri Anand Sinha, Shri H.R. Khan; and external members, Dr. Shankar Acharya, Dr. Rakesh Mohan, Prof. Indira Rajaraman, Prof. Sudipto Mundle, Prof. Errol D'Souza and Prof. Ashima Goyal. Shri Deepak Mohanty, Dr. Janak Raj, Shri Pardeep Maria and Shri Amitava Sardar were in attendance.
8. Since February 2011, the Reserve Bank has been placing the main points of discussions of the TAC on Monetary Policy meetings in public domain with a lag of roughly four weeks after their meetings.