FICCI disappointed at RBI's move

NEW DELHI, JUNE 18, 2012: FICCI expressed its disappointment at RBI's move of keeping CRR and the repo rate unchanged in its latest mid quarter monetary policy review.

The RBI decision to not reduce the repo rate is even more difficult to understand in light of its own admission that 'the persistence of overall inflation both at the wholesale and retail levels, in the face of significant growth slowdown points to *serious supply bottlenecks* and sticky inflation expectations' (emphasis ours). It is not clear at all how the supply bottlenecks and high level of vegetables and protein prices, which is the main cause of persistent inflation, will be tackled by keeping interest rates high.

It is, however, also true that the onus for reversing the present decline in overall GDP and specially in industrial growth rate lies primarily on the government's implementation of much needed structural reforms. In the absence of these reforms and continued high interest rate policy by the RBI, the economy is headed for a long period of 'slowflation' which will bring us closer to a major crisis.

"Therefore, a cut in the repo rate would have been very timely and may have provided some boost to the already flagging growth", said **Dr Rajiv Kumar, Secretary General, FICCI.**

While inflation remains persistent and sticky, nonetheless, in the trade off between growth and inflation, it has become extremely important to regain the lost growth momentum. This would help to release some of the supply bottlenecks that even according to the RBI are the major cause of continued inflationary pressure.

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