

## RBI'S SLIPPAGE IN INFLATION TARGETING

# Acting prematurely would have hurt economy, says Das

**BHASKAR DUTTA**

Mumbai, 2 November

The central bank may have failed to achieve its legally mandated inflation target, but had it tightened policy a little too early, it would have taken a heavy toll on the economy, Reserve Bank of India (RBI) Governor Shaktikanta Das said on Wednesday at a banking event in Mumbai.

Das said the efforts to safeguard growth often did not get the requisite credit. "Step back a moment, pause, and reflect. If we had started the process of tightening earlier, what would have been the counter-factual scenario? What you prevent in the process doesn't get the kind of appreciation it should have got," said Das.

"In the process, there has been slippage in our inflation targeting and in our ability to maintain inflation below 6 per cent. But it (premature tightening) would have proven very costly for the economy. I think that needs to be acknowledged," he said. Turn to Page 6 ▶



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**SHAKTIKANTA DAS**, RBI governor

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NO RUSH TO LAUNCH: DAS** P4

rural customers," he added.

CavinKare, a south India-based FMCG major, has also witnessed stress in rural areas for the last two quarters. "We have noticed that the frequency of distributors ordering stock from us has decreased. Distributors typically order goods at least once every seven days but that has increased to 10 days," said Venkatesh Vijayaraghavan, group CEO and director, CavinKare.

After the September-quarter results, Hindustan Unilever MD and CEO Sanjiv Mehta told investors: "CPI inflation continues to be above the RBI threshold...Within this, rural inflation was higher than urban."

Mehta also said, "Volume continued to decline in both urban and rural markets with a more pronounced drop in rural." He further explained, "It is quite natural for consumers, especially at lower income levels, to feel the pinch of increased pressure on the wallets due to high inflation. They do adjust volumes and prioritise essentials over discretionary to manage the household budgets."

HUL did not offer any comment on Business Standard's query for this story.

Rural stress began towards the end of August last year and it still continues to be a pain point for FMCG companies.

However, some companies said they remained unaffected by the issue. For instance, Mayank Shah, senior category head, Parle Products, said the company had not seen an impact on demand and had, instead, seen a pick-up since the festival season. The company has not extended credit to its distributors, he said.

## RBI gov...

The RBI governor made the comment at the annual FIBAC

2022 conference, organised jointly by the Federation of Indian Chambers of Commerce and Industry and the Indian Banks' Association, a day prior to the monetary policy committee's (MPC's) additional meeting.

Saying the RBI had prevented an outright slide in economic growth after gross domestic product (GDP) growth rate recorded a contraction in 2020-21, Das said history will be the judge of the central bank's actions, notwithstanding public discourse.

"There are several points of view expressed. When we looked at the inflation trajectory earlier this year, our assessment showed the average inflation to be at 4.5 per cent," he said.

Consumer Price Index (CPI)-based inflation rate was at 7.41 per cent in September this year.

The MPC commenced its tightening cycle in May. The repo rate has since been raised by 190 basis points (bps) to 5.9 per cent. CPI inflation has been above the RBI's 4 per cent target for 36 months. The price gauge has also been outside the MPC's decreed 2-6 per cent band for three consecutive quarters, chalking up the rate-setting committee's failure to achieve its inflation mandate.

Economic growth was at 13.5 per cent in April-June, lower than the RBI's estimate of 16.2 per cent.

The RBI last month reduced its GDP growth forecast for the current fiscal year (2022-23) by 20 bps to 7 per cent.

"We didn't want to upset the recovery process. We wanted the economy to land safely in the turbulent waters through which it navigated Covid-19. We wanted it to reach the shore, so that we could try and hold down inflation," said Das.

"We are closely monitoring the inflation print, as well as the effects of our past actions. In our view, price cohesion, sus-

tained growth, and financial stability need not be mutually exclusive," he said.

Amid debate on whether the contents of the MPC's letter on inflation failure to the government should be made public, Das reiterated he did not have the 'privilege' to release the statement since it was being made in keeping with the legal proviso.

"I don't have the privilege, the authority, or the luxury to release it to the media before the addressee even gets it. The letter is written under the law in line with the legal requirement," he clarified.

Das said the contents of the letter, however, will not be "perennially under wraps" and will be made available to the public at some point in time.

"Our constant endeavour is to keep Arjuna's eye on inflation," said Das.

While observing that liquidity conditions in the banking system had tightened in October due to an amalgam of factors, including high currency demand in the festival season, Das said the strain is likely to be transitory in nature.

According to the RBI governor, leaks due to currency demand are likely to ease after the festival season. Government expenditure is expected to pick up after the monsoon season.

A key reason invoked by analysts for the recent tightness in liquidity is the sluggish pace of government spending. Moreover, the swiftness of foreign exchange outflows had slackened, which presaged well for systemic liquidity, he said.

Terming the synchronous tightening by central banks as the latest global shock, Das said the rupee had moved in an orderly fashion since the start of the geopolitical crisis.

The rupee has depreciated 10 per cent against the US dollar so far this year.

In terms of the real effective

exchange rate — which is inflation-adjusted — the rupee had gained 3.7 per cent from March to September. Das said the rupee was the least misaligned "in the face of the tsunamis of global spillovers".

## iPhone ...

All the other mobile device makers also committed that their respective 5G phones would be enabled to receive 5G by the middle of November (including some with beta software) both on standalone and non-standalone networks. Samsung's 5G phones will be enabled from November 15, according to sources.

The device makers' latest announcement has advanced the earlier plan of enabling all phones by December. Over 160 models of 5G handsets are available in the country, and there are more than 70-80 million 5G handset users. Nearly 125 models have already been activated.

At the meeting, the device makers also raised the concern that the slow pace of 5G network rollout by telecom service providers could lead to numerous complaints from customers using these services.

Sharing details of its beta programme, Apple said users with 5G-enabled iPhones could join by enrolling their devices on the Apple website and accessing the latest beta release and subsequent updates, including the software updates which will be available to Airtel and Jio customers from next week.

In an official statement in October, Apple had shared a timeline, and said: "We are working with our carrier partners in India to bring the best 5G experience to iPhone users as soon as network validation and testing for quality and performance is completed. 5G will be enabled via a software update and will start rolling out

