
Macroeconomic indicators - RBI focusing on managing recovery

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The Reserve Bank of India has said that its focus is now to manage the economic recovery and the first phase of monetary tightening will arrest inflation without hurting growth.

Mr Deepak Mohanty ED of RBI said that "At present, the focus around the world and also in India has shifted from managing the crisis to managing the recovery." He said that the key challenge is withdrawing soft monetary policy that was initiated to weather the financial crisis.

Mr Mohanty said that "The key challenge relates to the exit strategy that needs to be designed, considering that the recovery is as yet fragile but there is an up tick in inflation, though largely from the supply side, which could engender inflationary expectations."

He said that the RBI has initiated the first phase of exit in its October 2009 review of monetary policy in a calibrated manner mainly by withdrawal of unconventional measures taken during the crisis.

In its October monetary review, the RBI raised the requirement for banks to hold portion of the deposits in cash, gold and government securities by one percentage points to 25%. It had also done away with special liquidity provision for banks to provide money to mutual funds and others.

Mr Mohanty said that "This should help anchor inflationary expectations by reducing the overhang of liquidity without jeopardising the growth process as market liquidity remains comfortable."

(Sourced from Zeenews.com)

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