Prudent approach: On the RBI's interest rate-setting committee meeting

The RBI did well to hold interest rates, but **inflationary** pressures remain

There was little **room** for the Reserve Bank of India (RBI)'s interest rate-setting committee to **manoeuvre** during its meeting in early August. **Elevated** global **crude** **prices** over the past few months **had** already pushed **retail inflation** beyond the central bank's 4% target, with headline CPI rising to 4.38% in June, the highest in the current CPI series. While the **outcome** was **a foregone conclusion**, leading the RBI to keep the **repo rate** unchanged at 5.25% for the fourth **consecutive** meeting, RBI Governor Sanjay Malhotra's post-MPC statement suggests that the central bank's principal concern has, for some time now, been **containing** the **fallout** of **mounting geopolitical uncertainties** on India's **macroeconomic** fundamentals. The recent dollar-rupee **swap** and the **decision** to **absorb** the **hedging cost** on fresh Foreign Currency Non-Resident (Bank) deposits **are** clear indications of the RBI's focus. The objective is **twofold**: to maintain adequate domestic **liquidity** as the rupee **weakens amid** capital outflows, while **shoring up** foreign exchange reserves as the **merchandise** import bill **swells** **on the back of** elevated **crude** prices. Foreign exchange reserves have now **climbed** close to $700 billion, while FCNR(B) deposits have risen to around $40 billion and are expected to grow further before the scheme closes. The **rupee**, which until recently was the worst-performing Asian currency, **has** recovered to around ₹95.

However, the MPC's **assessment** that inflationary pressures are not yet **broad-based** and remain largely **confined to** food and fuel may **prove** **premature**. Higher fuel costs have affected sectors including transport, food, travel, and tourism. Inflation in transport services more than doubled to 4.31% in June from 1.75% in May. Although the Centre cut commercial LPG prices for a second consecutive month in July, it is **unrealistic** to expect restaurants and **eateries** to pass on these savings immediately. Passenger vehicle manufacturers have also raised prices this year, **reflecting** higher **input** and **logistics costs**. While U.S. President Donald Trump has indicated a possible **truce** and a **durable arrangement** to secure **navigation** through the Strait of Hormuz, the Ukraine war continues to **threaten** supplies from Russia, India's largest crude supplier. Even so, the RBI's **decision** to prioritise growth while remaining **alert** to inflationary pressures from global supply shocks **is** **underpinned** by India's relatively strong domestic fundamentals. Merchandise exports grew 15.5% year-on-year in June, consumption demand has remained **resilient**, and public and private investments continue to **strengthen**. Governor Malhotra's **assertion** that future policy decisions will remain "data dependent" and that the RBI will **adopt** a "**wait-and-watch" approach** **is** **arguably** the most prudent **course**.

- Red/blue coloring of words in the sentence indicates subject verb relationship; where 'red' denotes 'subject' and 'blue' denotes 'verb'. **[Practice Exercise]**

Vocabulary

1. **Prudent** (adjective) - wise, cautious, sensible, judicious, careful विवेकपूर्ण
2. **Inflationary** (adjective) - inflation-causing, escalating-price, inflationary pressure, rising-cost मुद्रास्फीति से संबंधित
3. **Room** (noun) - scope, space, leeway, margin, opportunity गुंजाइश
4. **Manoeuvre** (verb) - navigate, manipulate, strategize, steer, move चाल चलना
5. **Elevated** (adjective) - high, raised, heightened, soaring, increased ऊंचा
6. **Crude** (adjective) - unrefined, raw, unprocessed oil कच्चा तेल या अपरिष्कृत
7. **Retail inflation** (noun) - the speed at which prices rises for everyday goods and services that regular households buy for personal use खुदरा महंगाई या खुदरा मुद्रास्फीति
8. **Outcome** (noun) - result, consequence, aftermath, effect, conclusion परिणाम
9. **A foregone conclusion** (phrase) - an inevitable result, an outcome that is certain to happenपहले से तय नतीजा
10. **Repo rate** (noun) - rate at which central banks lend short-term credit to commercial banks in exchange for collateral रेपो दर (जिस दर पर आरबीआई बैंकों को कर्ज देता है)
11. **Consecutive** (adjective) - successive, sequential, uninterrupted, following, serial लगातार
12. **Contain** (verb) - control, curb, restrain, check, limit नियंत्रित करना
13. **Fallout** (noun) - after-effect, repercussion, consequence, impact, outcome बुरा परिणाम
14. **Mounting** (adjective) - growing, increasing, escalating, rising, accumulating बढ़ता हुआ
15. **Geopolitical** (adjective) - related to political activity भू-राजनीतिक
16. **Uncertainty** (noun) - unpredictability, instability, doubtfulness, volatility, insecurityअनिश्चितता
17. **Macroeconomic** (adjective) - broad economic, systemic economic, economy-wide समष्टि आर्थिक (मैक्रो-इकोनॉमिक)
18. **Absorb** (verb) - take in, swallow, bear, soak, assimilate सोख लेना
19. **Hedging cost** (noun) - is financial expense incurred to reduce or eliminate downside risk from price volatility in an investment or asset हेजिंग लागत (जोखिम से बचाव का खर्च)
20. **Twofold** (adjective) - double, dual, twofold, in two parts दोहरा
21. **Liquidity** (noun) - refers to how quickly and easily an asset can be converted into ready cash without significantly affecting its market price तरलता या नकदी
22. **Weaken** (verb) - decline, soften, lose strength, flag, diminish कमजोर पड़ना

23. **Amid** (preposition) - in the middle of, during, surrounded by, amidst, among के बीच में
24. **Shore up** (phrasal verb) - to stop a wall or a building from falling down by supporting it with building materials such as wood or metal सहारा देना
25. **Merchandise** (adjective) - goods, commodities, trade goods, cargo, products व्यापारिक माल
26. **Swell on the back of** (phrase) - refers to an accumulation or surge of assets, deposits or reserves held at a financial institution or along a metaphorical boundary के बूते पर बढ़ना
27. **Climb** (verb) - rise, ascend, go up, increase, mount ऊपर चढ़ना
28. **Assessment** (noun) - evaluation, appraisal, estimation, judgment, analysis मूल्यांकन
29. **Broad-based** (adjective) - comprehensive, widespread, inclusive, extensive, all-encompassing व्यापक आधार वाला
30. **Confined (**to) (verb) - restricted, limited, bounded, enclosed तक सीमित
31. **Premature** (adjective) - unseasonable, hasty, too early, untimely, unverified समय से पहले
32. **Unrealistic** (adjective) - impractical, unfeasible, quixotic, idealistic, fanciful अवास्तविक
33. **Eatery** (noun) - restaurant, food outlet भोजनालय
34. **Reflect** (verb) - mirror, show, indicate, manifest, display प्रदर्शित करना
35. **Input** (noun) - raw material, resource, component, factor of production कच्चा माल/साधन
36. **Logistics cost** (noun) - the total expenses incurred in moving, storing and managing raw materials and finishing goods from suppliers to final customers लॉजिस्टिक्स लागत (परिवहन और ढुलाई का खर्च)
37. **Truce** (noun) - ceasefire, an agreement between two armies to stop fighting in order to allow discussions about peace युद्धविराम
38. **Durable** (adjective) - lasting, permanent, enduring, long-term, stable टिकाऊ
39. **Arrangement** (noun) - agreement, pact, deal, settlement, setup व्यवस्था
40. **Navigation** (noun) - sailing, shipping, transit, seafaring, movement of vessels नौवहन
41. **Threaten** (verb) - endanger, imperil, menace, put at risk, jeopardize खतरे में डालना
42. **Alert** (adjective) - watchful, vigilant, attentive, cautious, wary सतर्क
43. **Underpin** (verb) - support, bolster, strengthen, reinforce, back up आधार प्रदान करना
44. **Resilient** (adjective) - robust, tough, adaptable, buoyant, enduring लचीला
45. **Strengthen** (verb) - reinforce, fortify, build up, enhance, consolidate मजबूत करना

46. Assertion (noun) - declaration, claim, statement, affirmation, contention दावा

47. **Adopt** (verb) - take up, embrace, choose, employ, implement अपनाना

48. **Wait-and-watch approach** (noun) - a strategy of taking no immediate action and observing how a situation develops देखें और प्रतीक्षा करें की नीति

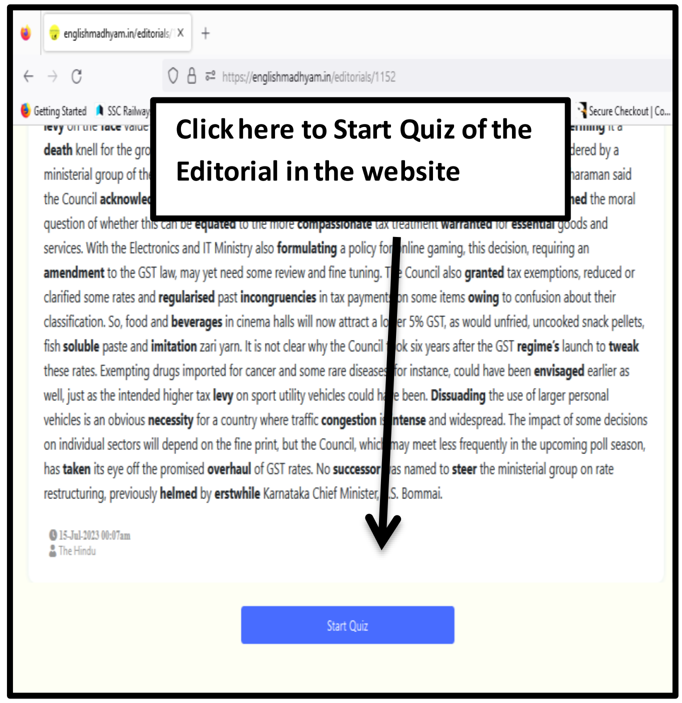
49. **Arguably** (adverb) - debatably, conceivably, arguably, defensibly संभवतः

50. **Course** (noun) - path, direction, route, approach, line of action मार्ग

Summary of the Editorial

1. The **RBI's Monetary Policy Committee (MPC)** decided to keep the **repo rate unchanged at 5.25%** for the fourth consecutive meeting.
2. The decision was largely **expected**, as rising global crude oil prices had increased inflationary pressures in India.
3. **Retail inflation** rose to **4.38% in June**, the highest level in the current CPI series and above the RBI's **4% target**.
4. The RBI's major concern is not only inflation but also the impact of **geopolitical uncertainties** on India's macroeconomic stability.
5. The RBI has taken measures such as a **dollar-rupee swap** and absorbing hedging costs on fresh **FCNR(B) deposits** to strengthen financial stability.
6. These measures have a **twofold objective**: maintaining adequate domestic liquidity and strengthening India's **foreign exchange reserves**.
7. India's foreign exchange reserves have risen close to **$700 billion**, while FCNR(B) deposits have reached around **$40 billion**.
8. The **Indian rupee**, which had been among the worst-performing Asian currencies, has recovered to around **₹95**.
9. However, the MPC's view that inflationary pressures are mainly restricted to **food and fuel** may be **premature**.
10. Higher fuel prices are affecting several sectors, including **transport, food, travel and tourism**, showing that inflationary effects are spreading.
11. **Transport-service inflation** more than doubled, rising from **1.75% in May to 4.31% in June**.
12. Although commercial LPG prices have been reduced, it is **unrealistic to expect restaurants and eateries** to immediately pass these savings on to consumers.
13. **Passenger vehicle manufacturers** have also increased prices because of higher **input and logistics costs**, indicating wider inflationary pressures.
14. Despite global risks such as the **Ukraine war** and uncertainty around the **Strait of Hormuz**, India's domestic economy remains relatively strong, with rising exports, resilient consumption and strengthening investment.
15. Therefore, the RBI's decision to **prioritise economic growth while remaining alert to inflation** is considered prudent; its **data-dependent, wait-and-watch approach** is the most appropriate course for future policy decisions.

Practice Exercise: Banking Pattern Based



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