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Apex bank still wary of inflation

The RBI's credit policy has sent clear signals that growth and financial stability are centre stage and that the policy favours a lower interest rate regime.



RBI is monitoring the full array of price indicators so as to have a balanced view

However, RBI has not taken its eyes off inflation completely. Despite the WPI inflation reaching close to zero and expected to be in negative territory for H12009-10, RBI has projected WPI inflation at around 4 per cent by end-March 2010, with an inflation rate of around 3 per cent as a medium-term objective.

The reason behind this dichotomy between current inflation rate and the projected rate is partly due to the statistical decline on account of base-effect and concerns on still-elevated levels of primary articles, as reflected in close to double-digit CPI inflation

Clearly, RBI is monitoring the full array of price indicators so as to have a balanced assessment and perspective of inflation outlook for policy purposes.

Moreover, RBI has also noted that "...the sharp decline in WPI inflation has not been commensurately matched by a similar decline in inflation expectations," implying that, going forward, demand-side factors will play a more important role in anchoring inflation expectations in India than supply-side factors.

On liquidity management, RBI has adopted various policy measures since September 2008, resulting in injection of nearly Rs 4,28,000 crore into the system, which has provided ample liquidity. Going forward, we expect rates to fall further during the year with the only variable here being the plans of the new government