

Important Vocab For the Editorial

1. **goldilocks** (noun) – exactly right condition (a country's economy is neither expanding too fast nor contracting).
2. **repo rate** (noun) – it is the rate at which the central bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfall of funds.
3. **unleash** (verb) – let loose, release, set free.
4. **Gross domestic product (GDP)** (noun) – a measure of economic activity in a country. It is the total value of a country's annual output of goods and service
5. **benign** (adjective) – favourable, advantageous, beneficial..
6. **inflationary** (noun) – tending to cause monetary inflation.
7. **benchmark** (noun) – standard, guideline, basis.
8. **a foregone conclusion** (phrase) – predictable result, predictable outcome, inevitability.
9. **rate cut** (noun) – a decision by a central bank (like RBI in India) to reduce its main interest rate to the banks (like SBI, ICICI & etc in India) when these commercial banks get money from the central bank. Once this rate goes down, the banks are in a position to give loans at lower interest rates to individuals and the industry.
10. **slowdown** (noun) – economic decline, recession, slump/depression.
11. **the monetary policy committee (MPC)** (noun) – it is a six-member panel that is expected to bring “value and transparency” to rate-setting decisions. It will feature three members from the RBI — the Governor, a Deputy Governor and another official — and three independent members to be selected by the Government. The MPC will meet four times a year to decide on monetary policy by a majority vote.
12. **deem** (verb) – regard as, consider; view as.
13. **turbulence** (noun) – turmoil/disorder, troubles, disturbance.
14. **median** (noun) – halfway, in-between, middle/midway.
15. **keep the powder dry** (phrase) – be prepared for an emergency.
16. **aggregate** (verb) – collect, consolidate, combine.
17. **inhibit** (verb) – hinder, restrain, prevent.
18. **liquidity** (noun) – a measure of activity (i.e. the ability to buy or sell easily) in a market.
19. **flood the market** (phrase) – it refers to when an excess amount of inventory (stock) for sale causes an undesired drop in price for the product, in extreme cases making the products impossible to sell at any price.
20. **hereon** (adverb) – hereupon, after this, as a result of this.
21. **play out** (phrasal verb) – happen, occur, take place.
22. **inflation** (noun) – simply meaning “cost of living”; increase of price level of goods & services and vice versa decrease of currency value.
23. **on the one hand** (phrase) – as an alternative, as another option/substitute.
24. **optimistic** (noun) – positive, confident, hopeful.
25. **impulse** (noun) – (strong & sudden) urge/instinct, compulsion, need.
26. **heavy lifting** (noun) – difficult work.
27. **suffice** (verb) – be enough, be sufficient, be adequate.
28. **scenario** (noun) – course of events, situation.
29. **incentivise** (verb) – encourage, motivate, galvanize.
30. **fiscal** (adjective) – financial.
31. **arithmetic** (noun) – calculation, reckoning, tally.

32. **address** (verb) – attend to, tackle, deal with.
33. **in vain** (phrase) – unsuccessfully, futile, useless.

RBI's Goldilocks cut: On repo rate cut

The government must now unleash measures to boost growth

Faced with slowing GDP growth and encouraged by benign inflationary trends, the Reserve Bank of India (RBI) has delivered a Goldilocks cut of 35 basis points in the benchmark repo rate. Though a rate cut was a foregone conclusion ahead of the monetary policy announcement, the expectation was of either a 25 or 50 basis points one. Given the extent of the slowdown in the economy, the Monetary Policy Committee (MPC) deemed the former as too low but taking into account factors such as the turbulence in the global financial markets and the rupee's fall in the last few days, the latter was seen as too high. In the event, the MPC settled on a median and unconventional 35 basis point cut, which keeps the powder dry for further cuts this financial year. With this, the RBI has cut rates in four consecutive policy announcements beginning February this year, aggregating to a total of 110 basis points. But the transmission by banks to lenders has not been even a third of this. The **central bank** says that banks have passed on just 29 basis points which is poor indeed. One factor inhibiting transmission was the tight liquidity conditions until June when the RBI flooded the market — in fact, the last two months the central bank has had to absorb excess liquidity floating around. There is, therefore, reason to hope that transmission from hereon would be quicker.

The repo rate at 5.40% is now at a nine-year low and is headed lower in the next few months and could well settle at 5% or very close to that by the time this rate cutting cycle plays out. Supporting this theory is the fact that inflation is projected to be benign for the next one year. Growth, on the other hand, is expected to be weak and the MPC has revised downwards the projected GDP growth rate for this fiscal to 6.9% from 7% earlier, with downside risks. Even this appears optimistic given the current impulses in the economy and it is very likely that GDP growth this fiscal will be closer to 6.5%. With the latest cut, the RBI has signified that it is willing to do the heavy lifting. But this alone will not suffice as cost of capital is just one aspect that determines investment. The government has to play its part too in boosting growth. Arguably, the space for fiscal concessions is limited given the overall revenue scenario, but the government can certainly push for further reforms to incentivise investment without impacting its fiscal arithmetic. The slowdown now is part cyclical — which can be addressed by a rate cut — and part structural, for which reforms are an absolute necessity. Therefore, unless the government responds with its own measures, the RBI's efforts to support growth may go in vain.