

The Indian economy needs policy protection

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The pressure in the currency market might also warrant a monetary policy response. The MPC has maintained that the policy is determined only by the inflation-targeting mandate and a rate hike may be needed even to avoid inflationary consequences of depreciation in rupee. If the MPC decides to leave the rates unchanged in the October meeting, it will have to wait till December to make its next move, as an out-of-turn rate action will affect market confidence. Things will become clear in the coming weeks, but further policy tightening cannot be ruled out at this stage. Therefore, despite the positive surprise, growth numbers should be interpreted with care, as the given macroeconomic situation, particularly on the international front could pose challenges. The situation requires policymakers to remain vigilant and preserve macroeconomic stability. A significant increase in currency market volatility can dent market confidence and affect investment decisions.