THEIR VIEW

Monetary policy options under conditions of high uncertainty

Faced with conflicting demands, India's central bank should wait for uncertainties to play out before it makes a rate move

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PTI

The end of the killing and destruction in Gaza, the Hezbollah-Israel peace deal in Lebanon and the regime change in Syria have considerably eased tensions in West Asia. But high global uncertainty prevails. How long will the Gaza accord last? War is still ongoing in Ukraine, as are civil wars in Sudan and Congo. Most disruptive of all, US President Donald Trump's inaugural address made clear that he will do much of what he had threatened—massive deportation of illegal and legal migrants; drastic tariff hikes against adversaries, neighbours and allies; a trade and technology war against China; an exit from the Paris Accord; and the maximization of US oil production.

Cutting the supply of low-cost migrant workers and hiking import duties will sharply increase US production costs and rekindle inflation. The Federal Reserve will then have to halt—perhaps even reverse—its gradual reduction of interest rates. Recent US growth has been robust, but raising interest rates again will weaken it.

A full-fledged trade and technology war with China will further disrupt global supply chains and technology flows. Although this will also yield some opportunities for other countries, it will add to China's woes in the real-estate sector. Despite China's stimulus package, the International Monetary Fund projects that the growth of its economy will fall from 4.8% in 2024 to 4.6% this year and further to 4.5% in 2026.

Such a slowdown in the world's largest and second-largest economies will hurt global growth, calling for expansionary macroeconomic policies and lower interest rates around the world.

However, markets have already factored in a possible reversal in US interest-rate policy. For the past couple of months, there has been a sustained outflow of capital, especially from emerging markets like India, to the US. This has depleted the foreign-exchange reserves of these countries and weakened their currencies, thereby calling for an increase in interest rates in these economies.

India's recent growth-inflation dynamics and monetary policy options have to be viewed in this complex global backdrop. Much has been made of the first advanced estimate (FAE) of national income, estimating 2024-25 growth at 6.4%, instead of the earlier projected 6.5%. However, the FAE is largely based on data for the first half of the financial year. Public expenditure, especially capital expenditure, was considerably subdued in the first half due to the election code of conduct and a pause in spending as the government reset itself for a third term. There was also adverse weather.

Most high-frequency indicators suggest stronger growth in the second half. For the whole year, it could be in the 6.5-7% range. Given the gloomy global conditions, this rate sustained year after year is an impressive achievement. India remains the fastest-growing major economy in the world. Growth in China, the second-fastest growing major economy, at 4.8%, is well behind India's 6.4% clip.

India's sustained high growth has been made possible mainly by high public investment. A revival of the private-investment cycle is unlikely amid the present uncertainty, including over the stability and continuity of government policy. Finance minister Nirmala Sitharaman has established an enviable track record of maintaining very high rates of annual capex growth of 25-40% while also achieving her targeted fiscal deficit reduction every year. This has been made possible by the buoyancy of most taxes—except excise duties and corporation tax—combined with a sharp compression of revenue expenditure. The latter has been budgeted to grow by only 4.1% in 2024-25. This year, Sitharaman is again likely to meet the budgeted deficit target, if not improve upon it. However, there may be some shortfall in the capex target.

While impressive by global benchmarks, India's growth has been far short of what is required to pick up the slack in employment or the 8% growth needed to accomplish the Viksit Bharat goal of making India a developed country by 2047.

Meanwhile, inflation has been moderate. It has remained above the 4% target mainly due to high food prices, but within the central bank's tolerance zone of a 2-percentage-point variance on either side. Also, on the fiscal side, there is not much headroom for more expansionary policies, given the high central government debt of about 87% of GDP, which needs to go down. This, along with the negative impulses from the global economy, point to the need for an accommodative monetary policy stance and a reduction in the policy rate.

On the other hand, persistent outflows of foreign portfolio investment require an increase in the policy rate. There are also concerns that high food prices may spill over to headline inflation, which also calls for a higher policy rate. Given these competing pressures in a complex situation, the Reserve Bank of India is best advised to maintain its current policy rate and neutral stance. It should allow a few months for some of the prevailing uncertainties to play themselves out, and to assess the impact of the forthcoming Union budget, before it makes a new policy rate move. Meanwhile, it can continue to address the liquidity deficit through its variable repo rate (VRR) auctions and a further reduction in the cash reserve ratio (CRR) if required.

These are the author's personal views.

QUICK READ

Conflicts in several parts of the world persist even as US policies under Donald Trump have begun to complicate the economic context for policymakers around the world.

India too faces opposing pressures. A rate cut could favour growth but capital outflows and inflation are concerns too. It's best to let the air clear before a move is made.

MINT CURATOR

American employees have lost their labour market leverage

Their pandemic gains are over as the power balance tilts away

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The US hiring rate is signalling a recession in the labour market BLOOMBERG

Judging by the US unemployment rate of 4.1%, its labour market would appear to be thriving. This is about as good as it gets, economists would say, implying the economy is at or near full employment. Well, that's one way to look at it. Another is via the hiring rate, which is sending a signal that suggests a reversal of recent fortunes for the American worker.

That measure has been falling, dropping to 3.3% in November, a level that signals a labour market in recession. Yes, recession. Aside from a single month at the start of the pandemic, the hiring rate suggests that the labour market has not been this weak since it was struggling to crawl out of the deep 2007-09 recession, according to data from the US Bureau of Labor Statistics.

What's unusual currently is how these metrics are correlated. Indeed, there were 22 months between 2000 and 2022 in which the hiring rate was 3.3%, like now, and the average unemployment rate over those months was 8.2%, double the latest 4.1% reading.

[The weak hiring rate] means that the post-pandemic balance of power that gave workers leverage over employers, an immeasurable but vital force for improving wages and work conditions through better bargaining power, is now dead.

The post-mortem offers a lesson about markets, power and policy.

The mechanisms of worker power are fairly simple. It mainly relates to options; the ability, not just the threat, to walk away from an employer to take a job equally good or better someplace else shifts power to the worker. Although some of this power is determined by individual skill, experience, location, etc, some is determined by mobility in the market. In other words, are alternative jobs plenty and available?

Recall that fast US job growth coming out of the pandemic made the stretch between mid-2021 and mid-2022 a banner one for workers. Wages grew rapidly, unions saw organizing victories at such big companies as Starbucks and Amazon.com, and phrases like "great resignation" and "quiet quitting" entered our vocabulary. The hiring rate reached 4.6%, and it spent almost a year above the pre-covid high of 4.3% in 2001.

This power surge for workers was both needed and overdue. The US is a laggard in basic employee protections and labour standards, still treating basic necessities such as paid sick days or medical leave as earned privileges. Compared with peers, the US stands apart for low wages, barriers to unionizing and paltry support for the jobless. Worker power helps individuals improve their own situation and helps broad classes of workers, especially those represented by unions, fight for better standards. But 11 interest-rate increases by the Federal Reserve, intended to cool the labour market and slow inflation, did their job. Unemployment eventually began to rise, increasing from its low of 3.4% in April 2023. But hiring cratered, falling consistently for almost three years. And now the balance of power has shifted to employers.

Take the increasing return-to-office mandates that firms have announced, even though such decrees are objectively bad policy. Plenty of research shows they lead to higher turnover among employees, with losses more prominent among women, the senior-most and higher-skilled workers. In return, companies can expect no improvement in corporate performance and a harder time re-hiring.

Yet, as a show of regained power, return-to-office mandates make sense. Workers value flexibility and firms don't want to give away for free what workers would be willing to 'buy.' A return-to-office mandate makes working from home a privilege that has to be bargained for. The mandates are not that different from the reports of companies pulling back on generous paid family leave. What a collective surge in worker power made a given, a shift back to employers makes a privilege—again.

And that's the lesson from the brief but bright empowerment of workers, that power isn't permanent, and for workers, neither are its victories. The only ground that's always held is what policy has defined as the minimum.

This is a hard truth for workers in the US, where policy minimums are scant. In other countries, ranging from Finland to Portugal, the right to flexible work arrangements, similar to the right to request part-time scheduling, is enshrined in law. So are their paid family leave benefits and paid sick days.

But it's also a clear message to policymakers. We saw the best of what the labour market can do for workers when they were, for a short period of time, at the apex of their power. It wasn't enough then and the gains are eroding. Markets do not pull up the minimum, policy does, and it's long overdue.

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MY VIEW | PEN DRIVE

A 'Little Prince' and 8 billion gardeners to our rescue

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Have you ever looked at your house and thought, "This place needs a complete makeover?" You know the drill—pack your bags, move to a hotel, let the professionals work their magic, and return to your freshly renovated paradise. Simple. Now, let's apply that same logic to Earth. Maybe what works for a three-bedroom apartment in downtown Mumbai will work perfectly for an entire planet.

But hold on. Why do we need to do this at all? Because every minute, we dump a garbage truck's worth of plastic into our oceans, a trend set to reach 29 million tonnes annually by 2040. In 2023, the world's tree-cover loss was equivalent to losing an area larger than New Zealand within the span of just one year—or 28 trees per minute. At this pace, by 2030, our planet will retain just 10% of its forests. Picture a 100-page book of Earth's forests—we're about to rip out 90 pages of it. The clock is ticking, and the time for action is now.

Our carbon footprint is equally troubling. In 2023, we hit a record 37.4 billion tonnes of carbon dioxide emissions—enough to fill 7.5 billion hot-air balloons. The increase in 2022 alone added the weight of 2,050 Empire State Buildings to our atmosphere. Worse still, the issues are interlinked in a complex web of cause-and-effect.

By 2030, plastic-related emissions could reach 1.34 gigatonnes per year, equivalent to the emissions from over 295 new 500MW coal-fired power plants, while tropical deforestation alone means almost 5 billion extra tonnes of greenhouse gases annually. Think of Earth as a bathtub. Deforestation clogs the drainage, plastic pollution fills it with toxic sludge, and carbon emissions blast all the hot water taps. We're racing towards an overflow point, threatening irreversible damage to our planetary home.

Like overwhelmed homeowners, some of us are reported to be considering the most logical solution: hop over to Mars while we give Earth a good scrubbing. Like sending your kids to grandma's while you clean their room, except 'grandma's house' is a radiation-soaked red planet 225 million km away.

Let's crunch some numbers. Moving 8 billion people to Mars would cost somewhere in the quadrillions. A quadrillion needs you to count one number per second, with no breaks for eating, sleeping or TikTok, for 31.7 million years. And the timeline? Even if we launched a SpaceX Starship daily, moving everyone would take about 219,000 years. By then, we'll have evolved enough not to need spaceships anyway. Who knows, we'll probably teleport, *Star Trek* style, or have grown wings by then.

But just as I was getting excited about this extraordinary idea, I found myself watching a performance of Antoine de Saint-Exupéry's *The Little Prince*. Here was this little guy who kept his tiny asteroid clean by pulling out baobab sprouts daily, tending to his volcanoes and caring for his rose. There are no billion-dollar budgets or grand plans. Just old-fashioned wisdom hiding in plain sight.

The Little Prince Approach is simple yet elegant. An earth clean-up can be everyone's story. Instead of treating Earth like a house that needs professional renovators, see it as a garden that needs all its inhabitants to tend to it. Make planetary care as natural as watering a rose. This is 'societal thinking at planet scale.'

What it requires is:

Personal connection: Just as the prince's rose became special because he cared for it, each person can develop a unique bond with their piece of Earth.

Local action: Instead of waiting for grand solutions, start with your own little 'asteroid': your home, your street and your community.

Shared responsibility: Like the prince cleaning his volcanoes daily, everyone has a small but crucial role.

This is decentralized environmental care at its finest. Every person becomes a steward of their own little piece of the planet, creating a network of millions of small but meaningful actions. The Little Prince would not have seen 8 billion people as a problem to relocate; he'd see 8 billion potential caretakers.

The solution isn't about escaping to Mars or waiting for global initiatives. It's about understanding, as the fox taught, that "what is essential is invisible to the eye." The power to heal our planet lies in millions of tiny, daily acts of environmental ownership multiplied across billions of people.

Is it idealistic? Perhaps. But remember, it was adults who thought a drawing of an elephant inside a boa constrictor was a hat. Sometimes, it takes a child's wisdom to see the obvious solution we adults miss.

Instead of planning the most complicated cosmic evacuation since the plot of *Wall-E*, we should take a page from the Little Prince's book. After all, as he would say, the time you spend caring for your planet makes your planet unique to you. And 8 billion people caring for their unique piece of Earth? Now, wouldn't that be something? One that costs less than a Mars ticket, requires no space suits and has a chance of working before the sun goes supernova.

Besides, Mars is looking a bit dusty these days. And we definitely do not want to clean up two planets.

QUICK READ

As our planet becomes less habitable, the idea of hopping over to Mars while we give Earth a good scrubbing has gained some currency lately. Logical as it may sound, it's not terribly practical.

The hero of 'The Little Prince' inspires a better idea. Instead of seeing it as a grand clean-up job for professionals, each of us must act as a gardener tending to our own little part of the planet.