Comments of Ms Chanda Kochhar, Joint Managing Director & CFO, ICICI Bank Ltd on RBI's Monetary Policy for 2008-09.

The Annual Monetary Policy review of the RBI brings to the fore a very balanced approach which we believe would be conducive to overall growth of the economy. It is heartening to note that the growth projection has been pegged at a healthy 8 – 8.5% for FY09 on the back of sustained momentum in investment activities. There have been no signs of significant deceleration in credit growth to productive sectors of the economy with industry and services sector registering growth rates of 25.9% and 28.4% respectively in February 2008 on a YoY basis. More specifically, the 42.1% growth in credit to infrastructure augurs well for creating long-term supply capacity in the economy.

There is an acknowledgement of the growth risks associated with a global slowdown as well as lagged effect of monetary measures taken in earlier policies. It was felt that at this juncture any incipient demand side pressures are likely to be counterbalanced by these factors without any need to alter the policy rate structure. Obviously there is enhanced need to reassess the evolution of the macroeconomic scenario on a continuous basis given the uncertainties over the global scenario.

Controlling inflation and inflationary expectations continue to receive policy priority. However, it is important to note that RBI has once again stressed that the genesis of the headline inflation is from the supply side and measures to combat these inflationary forces typically do not yield overnight results. So it is likely that policymakers will have to show some tolerance towards marginally higher inflation numbers which is reflected in the upwardly revised RBI projection of inflation as well.

The policy is a clear indication that the focus of RBI will be on liquidity management while leaving the decision to adjust interest rates to the banking system. We think that interest rates are primarily function of evolving market liquidity conditions and our cost of funds. We will continue to monitor these variables before taking any decision on interest rates.

On the whole, this policy reinforces our belief that the year ahead will bring in robust growth with a sound financial system while our efforts to manage inflationary pressures will continue.