RBI Policy - Why we need to take the dissent votes more seriously

What stood out about the Dec-24 credit policy statement was that the vote to keep rates was 4:2. That means a third of the MPC members dissented. Time to take dissent votes more seriously now.

No debate on dissent vote

There was one dissent vote for the rate decision in October and 2 dissent votes in December. On both occasions, these dissent votes were hardly debated; not even in the MPC or in public domain. In contrast, when Michelle Bowman gave a dissent note on the 50-bps rate cut in September 2024, there was not only a public debate, but she was also allowed to explain her monetary dissent note in the form of an article on the Fed site. In India, dissent votes just tend to get lost.

Dissent votes in last one year

In the policies announced by the RBI till August 2024, Jayant Varma of previous MPC, always dissented on the decision to hold rates. On a couple of occasions, even Ashima Goyal had joined in giving a dissent vote. However, on most of the occasions, the dissent vote was hardly given the importance it deserved. Had the MPC listened to the warnings given by Jayant Varma, we could have even avoided the economic slowdown now. Varma had warned that the RBI policies could force Indian GDP into sub-optimal growth. That appears to be playing out. It is time that India takes dissent votes a lot more seriously in coming meetings.

Dissent story in December policy

In the December policy statement by the RBI, there were actually two dissent votes. Dr Nagesh Kumar, Director ISID and Prof Ram Singh of the Delhi School of Economics dissented to the decision to hold status quo on rates. Their view was that it was time to cut rates by a token 25 bps, especially considering that the Fed had already cut rates by 75 bps till date. The dissent vote was triggered by the fact that the Indian economy was facing growth challenges, as evident from the 5.4% GDP growth in Q2FY25. The need of the hour was a benign rate regime; or at least, an indication that the RBI would not hesitate to cut rates sharply if macro conditions warranted.

Structural issues in the MPC

There is a larger problem with the structure of the MPC. It has 3 members from outside, but 3 members are part of the RBI. In a sense, the MPC view still does reflect the view of the RBI. In the case of the December policy, 2 out of the 3 outside members dissented, but the final count of 4:2 looks like the vote passed easily. One way to address this dichotomy is to take a closer look at the MPC decision if the vote on the stance of the policy is unanimous but there is dissent in the rate vote. That would be a healthier debate, and more meaningful too. The message from the data and the dissent vote is simple; "Don't take the India growth narrative for granted!"

Fiscal 2025 - Is India likely to have a fiscal deficit problem in this fiscal?

The last couple of years have been too good to be true. The government made plans for aggressive cuts in fiscal deficit and actually bettered that. How-ever, the year 2025 could be more challenging.

Corporate taxes at 4-year low

Corporate tax collections in the second quarter were down by 7.2% yoy. That is a disconcerting fall, especially at a time when the government is counting on tax revenues to repeat the magic of the last 2 years. The fall in corporate tax flows is not too surprising. While robust GST flows indicate that the top line is intact, the real problem is in operating profits. The spike in input costs put pressure on the profitability of Indian companies and that is showing up in the corporate tax flows. What about other direct taxes?

Personal taxes and STT

In the last couple of years, it is direct taxes that have been driving revenues of the government. That is a positive sign, since a surge in indirect taxes is not exactly a progressive indicator. In the last few years, strong corporate tax collections translated into higher levels of personal taxes too. That is likely to change this time. The latest broking data shows pressure on client additions and on market volumes. That is likely to reflect in tepid STT collections in the next two quarters. While indirect taxes may hold up for now, there are genuine concerns over the direct tax collections.

Fiscal deficit under pressure

That puts the Indian economy in a tight spot. On the one hand, the key sources of tax revenues are dwindling. Also, the market conditions are not too conducive for disinvestment revenues to contribute anything substantial to the kitty. While the indirect tax flows may sustain, even that is eventually going to show signs of pressure. On the other hand, revenue spending may remain subdued, as the government tries to postpone some of its spending commitments. But, the big challenge is in capex spending. At 11% capex growth, India is already feeling the growth pain. Any cuts on the capex front is not likely. In fact, we may see some of the revenue spending diverted to capex spending in the current year.

What it means for fiscal deficit?

That is the million-dollar question. In the last few years, the government had set targets to cut fiscal deficit each year and the actual numbers actually were better than that. Even in the current FY, the fiscal deficit was pegged at 4.5% of GDP and the expectation that the full-year fiscal deficit could actually be less than 4.5% of GDP. However, with the pressure on revenues and sticky capex spending commitments, India could well end the current fiscal year with fiscal deficit in excess of 4.5%. That is likely to pose a real problem for the Indian economy, which had enjoyed the fruits of fiscal prudence in recent years!

Social Media Ban - Australia has taken the lead, but will it be a workable solution?

Recently, the Australian government has banned children under the age of 16 from using any forms of social me-dia. This will be use with an age filter done by the social media front and fully audited.

Why the curbs on social media?

This is nothing new. Countries across the world have put a ban on social me-dia. It has been a big challenge to en-sure that children access the social media in a more responsible manner. To-day, with rapid spread of social media platforms as Meta (Facebook), Twitter, Instagram, and even WhatsApp. Many of the social media apps are largely un-regulated and transcend national boundaries. There is the scope for young kids to become part of social media groups that are not in their larger interest. Also, social media is distraction for young children and teens.

The Australian government is also of the view that social media is forcing young people to spend too much time on the small screen, which is not helping their mental and psychological growth. The real growth at a young age comes from sports, social interactions, healthy chats, meaningful debates etc. What the social media offers is an ex-act antithesis of all these things. The Australian government is specifically worried as they seen a big trend of young Australians being swayed by social media hype and are turning out to be young adults with wrong notions of reality, unrealistic expectations, and low self-esteem. That needs to be curbed.

But, there are problems galore!

Age based restrictions on social media is much easier said than done. Since the start, Facebook and Instagram have been trying to weed out young kids from the platform through use of various AI driven identification measures. However, that has only been partially successful. There are other methods like the virtual private net-works (VPN), which can also be used by young people to fake their identities and access the social web. In addition, there is also the risk that if the social media goes out of bounds through the normal world wide web, they may be even lured to the dark web to access a lot more of undesirable stuff. Above all, the algorithms that various social media platforms are currently using to weed out young people are far from fool-proof.

But, it is an essential start

However, that cannot be denied is that some amount of monitoring is essential. It is actually quite pathetic to see young people addicted to an unreal world in the social media. This is the age when they have to seek knowledge, debate ideas, and explore new vistas. Social media has none of these qualities as it creates and delivers a make-believe world to these young people. Some amount of serious policing has to happen and if it does not happen voluntarily, then it has to hap-pen in a more regulatory manner. The road is still hazy but the need to limit access to social media is a pragmatic reality!