

Research

Reaction on Aug 2021 Monetary Policy meeting - Industry Experts

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Dr M Govinda Rao, Chief economic advisor of Brickwork Ratings

"As expected by BWR, the RBI revised upwards the full year (FY22) inflation outlook from 5.1% to 5.7% with similar upward revision in quarterly outlook. The RBI feels that the inflation breaching the upper limit of the band in May and June is transitory, it will be elevated at an average of 5.7% during the year. The continued accommodative stance highlights RBI's priority on sustaining growth recovery. However, as price stability continues to remain a concern, the tone of MPC turned a bit cautious compared to its previous MPC. Along with ensuring adequate liquidity to facilitate the government borrowing programme the RBI has announced some measures to rein in the control excess liquidity as well. Inflation outlook of 5.7% is certainly a high projection on the back of prevailing uncertainty over crude oil prices and rising cost of import of edible oils which hold key for future price movements. The better monsoon outlook may moderate food inflation though the increase in edible oil prices and transportation cost arising from elevated prices of petroleum products pose risks. With most of the high frequency indicators providing better recovery prospects, the RBI has revised upwards its Q1FY22 GDP estimates by 2.9 percentage points to 21.4%, while keeping the full year projections at 9.5%. Overall, we could expect a better clarity on future guidance on growth and inflation outlook in the October MPC meeting. With the 5-1 vote to continue with the accommodative stance of the MPC, there is some caution though there is no possibility of immediate policy reversal. We expect the RBI to continue with the accommodative stance till the growth recovers".

Ms Rajee R, Chief Ratings Officer, Brickwork Ratings:

"RBI's announcements, while largely on expected lines, also pointed to a slightly less dovish tone. The growth supportive policy reiterated RBI's "whatever it takes" mode to ensure the preservation of financial stability and sustainable growth to mitigate the impact of COVID on the economy, especially since the underlying conditions around aggregate demand are still weak. The increase in the quantum of VRRR indicates the start of policy normalization on the liquidity front. However, while noting that pre-emptive monetary policy response at this stage will kill the nascent recovery, RBI has extended the On-tap TLTRO and MSF relaxation by another three months. Announcement of conducting two more GSAP auctions in August help in anchoring yield expectations and easing the government borrowing programme. Extension of the timeline by six months to achieve the threshold for certain operational parameters under the RBI Resolution Framework for COVID related stress is a relief. Revision of the inflation forecast to 5.70% reflects the higher inflation scenario."

Source: **Equity Bulls**