

Jayanth Varma, the lone dissenter on RBI's policy stance- Business Journal

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Even as there was unanimity on a status on Reserve Bank of India's benchmark policy rates, external member Professor J R Varma expressed his reservation on continuity of RBI's accommodative stance.

" All members, namely, Dr. Shashanka Bhide, Dr. Ashima Goyal, Dr. Mridul K. Saggar, Dr. Michael Debabrata Patra and Shri Shaktikanta Das, except Prof. Jayanth R. Varma, voted to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward." said the August resolution of the Reserve Bank's monetary policy committee.

The RBI maintained policy repo rates at 4 per cent and an accommodative stance on liquidity conditions.

Significantly In the June policy minutes. Professor Varma had said that he believed that the balance of risk and reward continues to be in favour of monetary accommodation. Therefore, I support maintaining the policy rate at its current level, and I also support the accommodative stance.

What has changed since then? Inflation imprint has exceeded the central bank's upper tolerance limit of 6 per cent . Besides, there has also been debates RBI's timing on taper- withdrawing its stimulus by pumping in liquidity through various bond buyback programmes and liquidity infusing measures.

"This policy meeting finally saw some implicit acknowledgement that continued disregard for inflation ultimately comes at the cost of policy credibility and markets eventually exacting higher risk premia" said Nomura's India economist Aurodeep Nandi. "This was reflected in the dissent of one of the MPC members against the accommodative stance, and the RBI's move to slowly start draining the liquidity swamp.

There will be more clarity on August 20, when the Reserve Bank released its monetary policy committees minutes" It is unclear from the monetary policy statement whether he wanted the stance to be changed to neutral" said Rahul Bajoria, India economist at Barclays Capital

The dissent however sends a note of caution to the market. "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" said M Govinda Rao chief economic advisor at Brickwork Ratings. We expect the RBI to continue with the accommodative stance till the growth recovers".

The policy statement noted that the recovery remains uneven across sectors and needs to be supported by all policy makers. The Reserve Bank remains in "whatever it takes" mode, with a readiness to deploy all its policy levers – monetary, prudential or regulatory.