

RBI begins three-day monetary policy meet to decide on key rates

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Synopsis

Reserve Bank Governor Shaktikanta Das headed six-member Monetary Policy Committee is scheduled to announce the policy resolution on Thursday.

The Reserve Bank's rate-setting panel began its three-day deliberations on Tuesday to decide the next monetary policy in the backdrop of Budget 2022-23, inflationary concerns and evolving geo-political situation.

Reserve Bank Governor Shaktikanta Das headed six-member Monetary Policy Committee (MPC) is scheduled to announce the policy resolution on Thursday.

The meeting was to start on Monday but it was postponed by a day in view of Maharashtra declaring public holiday on February 7 to mourn the death of legendary singer Lata Mangeshkar.

It is widely anticipated that the MPC is likely to maintain the status quo on the benchmark interest rate or repo rate.

Experts, however, are of the opinion that the MPC may change the policy stance from 'accommodative' to 'neutral' and tinker with the reverse-repo rate as part of the liquidity normalisation process.

If the RBI maintains status quo in policy rate on Thursday, it would be the tenth consecutive time since the rate remains unchanged. The central bank had last revised the policy rate on May 22, 2020, in an off-policy cycle to perk up demand by cutting interest rate to a historic low.

According to Brickwork Ratings, the RBI may continue to hold the policy rates at current levels in the upcoming policy meeting.

"We expect the MPC to start increasing the policy rates beginning with normalising the policy corridor between repo and reverse repo rate. We expect the RBI to hike the reverse repo rate in its April 2022 policy meeting," it said.

The outlook on inflation and growth may remain unchanged for the current fiscal, while the statement is keenly awaited for its forward guidance on inflation and the GDP for the next fiscal, it added.

The last MPC held in December 2021 had kept the benchmark interest rate unchanged at 4 per cent and decided to continue with its accommodative stance against the backdrop of concerns over the emergence of the new coronavirus variant Omicron.

The MPC has been tasked by the government to keep inflation in the range of 2-6 per cent.

Citing the massive spike in credit growth during the first half and the steeper fall in deposits and the resultant rise in term money rates, coupled with the record high borrowings, an SBI report has called for a 20 bps increase in reverse repo rate outside the MPC ambit so that the central bank find buyers for the flooding new debt papers.

The budget 2023 has pegged the Centre's gross borrowing at a record Rs 14.3 lakh crore and for the FY22 at Rs 10.5 lakh crore, lower than Rs 13.5 lakh crore this fiscal, while together with the states, the gross borrowing will be Rs 23.3 lakh crore and net will be Rs 17.8 lakh crore, the report said. The budget seeks to pay back Rs 3.1 lakh crore next fiscal, up from Rs 2.7 lakh crore this fiscal, it added.

While during the first half of FY22 itself, signs of credit recovery became visible, the latest data for the week to January 14, 2022, shows all banks incremental credit grew by Rs 5.46 lakh crore, more than double of Rs 2.72 lakh crore in the same period last fiscal, the report said, adding as against this, the incremental deposit growth was only Rs 8.6 lakh crore, down from Rs 10.5 lakh crore.