

RBI monetary policy: Here's what the experts are saying – Moneycontrol.com

By Kalpana Warriar on August 6, 2021

The RBI's Monetary Policy Committee (MPC) on August 6 decided to retain the policy stance as accommodative, explaining that this status quo, along with the unchanged repo rate (4 percent) and GDP outlook for 2021-22 (9.5 percent) will remain this way till the economy recovers from the ongoing COVID-19 pandemic.

The committee highlighted the divergent, two-track way of economic recovery. Per its statement, "Countries that are ahead in vaccination and have been able to provide or maintain policy stimulus are rebounding strongly. Growth in other economies remains subdued and vulnerable to new waves of infections. There has been a slowing of momentum in global trade volumes in Q2:2021, with elevated shipping charges and logistics costs posing headwinds".

While the reverse repo rate was pegged at 3.35 percent, the MSF (Marginal Standing Facility), which is usually pinned at 100 basis points or a percentage above the repo rate, was determined at 4.25 percent. For the uninitiated, MSF is an ultimate financial resort of sorts, in case the bank has completely exhausted all its liquidity and borrowing aid. Under this, banks can borrow funds up to one percent of their net demand and time liabilities (NDTL).

RBI Governor Shaktikanta Das also cautioned against the likely third wave of the pandemic, growing infection rates in some parts of the country, and the need to stay vigilant and on-guard in order to effectively battle the economic impacts of the virus.

The MPC statement also revised its CPI (Consumer Price Index) inflation to 5.7 percent for FY22, a departure from its previous estimate of 5.1 percent. Take a look at the quarter-wise breakdown of the expected CPI inflation for 2022 :

Quarter (2022)	CPI Inflation (expected, in percentage)
Q1	5.1
Q2	5.9
Q3	5.3
Q4	5.8

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Expert: 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 program. 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.