
RBI Monetary Policy August 2021: Know who said what after no change in benchmark interest rate – Check reactions

The Reserve Bank of India (RBI) on Friday decided to keep benchmark interest rate unchanged at 4 per cent but maintained an accommodative stance as the economy is yet to recover from the impact of second COVID wave.

This is the seventh time in a row that the Monetary Policy Committee (MPC) headed by RBI Governor Shaktikanta Das has maintained status quo. RBI had last revised its policy rate on May 22, 2020, in an off-policy cycle to perk up demand by cutting interest rate to a historic low.

MPC decided to maintain status quo, that is keeping benchmark repurchase (repo) rate at 4 per cent, Das said while announcing the bi-monthly monetary policy review. Consequently, the reverse repo rate will also continue to earn 3.35 per cent for banks for their deposits kept with RBI.

Das said MPC voted unanimously for keeping interest rate unchanged and decided to continue with its accommodative stance as long as necessary to support growth and keep inflation within the target.

MPC has been given the mandate to maintain annual inflation at 4 per cent until March 31, 2026, with an upper tolerance of 6 per cent and a lower tolerance of 2 per cent.

Observing that economy is slowly recovery from brief hiatus, the Governor said, some of the high frequency indicators reflect recovery.

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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 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 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.