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RBI's MPC begins deliberations amid expectations of status-quo in policy rate

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The Reserve Bank of India (RBI) Annual Report, released last week, has a detailed assessment on the state of the economy. (Reuters)

Asit Ranjan Mishra

- The RBI annual report released last week has already made it clear that the conduct of monetary policy in 2021-22, would be guided by evolving macroeconomic conditions

MUMBAI: The Reserve Bank's rate-setting panel, Monetary Policy Committee (MPC), began its three-day deliberations on Wednesday amid expectations of a status quo on benchmark rate mainly on account of uncertainty over the impact of the second wave of COVID-19 pandemic.

Moreover, the fears of firming inflation may also refrain the MPC from tinkering with the interest rate in its bi-monthly monetary policy outcome to be announced on Friday.

The RBI had kept key interest rates unchanged at the last MPC meeting held in April. The key lending rate, the repo rate, was kept at 4 per cent and the reverse repo rate or the central bank's borrowing rate at 3.35 per cent.

M Govinda Rao, Chief Economic Advisor, Brickwork Ratings said the better-than-expected GDP numbers provide the much-needed comfort to the MPC on the growth outlook.

However, with the imposition of partial lockdown-like restrictions to contain the virus spread in several parts of the country, the downside risk on growth recovery has intensified, he said.

"Hence, the RBI is likely to continue with its accommodative monetary policy stance. Considering the risk of inflation emanating from the rising commodity prices and input costs, Brickwork Ratings expects the RBI MPC to adopt a cautious approach and hold the repo rate at 4 per cent," he noted.

Dhruv Agarwala, Group CEO, Housing.com, Makaan.com and Proptiger.com believes the RBI can maintain its accommodative stance in light of the economic impact of the second wave of COVID-19, without endangering its key goal of keeping inflation under control.

Reviving growth has become an important objective due to the economic damage caused by the recent lockdowns, he said, and added the RBI should also consider providing more liquidity to the National Housing Bank to enable the stability of housing finance companies, which in turn will allow the real estate sector to expand.