



**Expectation from MPC –
Aug'21**

Extended pause on interest rates set to continue

- MPC is expected to continue with its accommodative monetary policy given the ongoing uncertainty on the growth momentum and the persisting threat of another wave of the Covid pandemic.
- We don't see any action on interest rates or any major step towards recalibration of systemic liquidity at this point in time.
- The combination of elevated commodity prices, Covid related disruptions, vaccination progress, and policy support led economic revival has resulted in an acceleration in inflation in most countries including India. This may lead to readjustment in monetary policy over the next 6-12 months.
- Nevertheless, systemically important central banks, including the RBI, have so far treated the rise in inflation as 'transitory', while continuing to focus on supporting growth recovery.
- Reflation trade has been the dominant theme in global markets in first half of CY21 on the expectations of a global run down of the pandemic, a strong pick up in demand and also a sustained rise in inflation.
- There has been a partial reversal of the trend in the last 1-2 months due to the reset of expectations on the growth momentum and a further delay in the minimisation of the Covid risks. Such a slowdown of the reflationary trend in the global bond markets will also be an input to the MPC's decision.

Policy corridor expected to be normalized from Dec-21

- The benchmark CPI inflation in India has remained above 6.0% over the months of May and June and is likely to remain sticky in the near future.
- However, a strong kharif crop output led by a favourable monsoon and the easing of supply bottlenecks from a taper down of the pandemic may partly cool down the inflationary pressures from Q3FY22.
- With steady progress on vaccination and the pickup in aggregate demand, we expect RBI to start normalization of the policy corridor from Dec-21 onwards, followed by an eventual hike in the benchmark repo rate in Q1FY23.
- We continue to stick to our 10Y g-sec yield forecast of 6.15% by Sep-21 and 6.50% by Mar-22.