

Press Release
MPC Minutes: Apr-22
Consensus on orderly withdrawal of accommodation

25 April 2022

The RBI's intent to address increased price pressures by shifting from its ultra-accommodative policy was clearly underscored in the MPC minutes of Apr-22, with all the six members indicating the need for a change in policy response in order to mitigate the elevated inflationary risks. While the MPC members unanimously retained the accommodative policy stance, it has tweaked the language materially by introducing focus on "withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth".

The members acknowledged unambiguously that the raging Russia-Ukraine conflicts and unprecedented level of sanctions against Russia have aggravated the supply side disruptions which had been earlier triggered by the pandemic and pushed the commodity prices upwards further. While major inflationary concerns remain supply side driven, Dr. Bhide opined that improving demand conditions in the face of fresh global supply constraints may lead to increased inflation affecting further growth recovery. Some members also advocated the need for anchoring inflation expectations to prevent it from becoming unhinged. Dr. Goyal stated that supply-side action from the fiscal front has a major role in anchoring inflation expectations in order to sustain consumer confidence and the recovery. Accordingly, she argued that there is ample head room for a further cut in excise duty of retail fuels to mitigate the impact of any additional pass through of international crude prices to consumers. Prof Jayant Varma summed up the urgency on the inflationary front by articulating "with inflation projected to breach the upper tolerance limit for several months, it is imperative for the MPC to communicate its resolve to ensure that inflation remains within the target going forward. It is necessary to prepare the markets for the withdrawal of the post pandemic monetary accommodation." The Governor also supported the need for prioritising inflation and anchoring of inflation expectations to safeguard macroeconomic and financial stability, while being mindful of the ongoing growth recovery.

While the members were more concerned about the rising price pressures, they were also cautious of the uneven and incomplete growth recovery. The Governor noted that private consumption and investment are still subdued and contact-based services, although catching up, are yet to recover fully. As such, the governor opined for a gradual withdrawal of accommodation, stating that the risk to economic recovery, which is already strained by the current crisis, may get undermined if there is rapid tightening of financial conditions.

Nevertheless, with inflation risks getting skewed and entrenched sharply upwards, the members acknowledged that inflation control was a higher priority for them as compared to growth. Dr. Goyal clearly stated that although the recovery has been incomplete, the crisis level stimulus is no longer required. She also added that it was time to move towards equilibrium or neutral real rates consistent with non-inflationary growth. Additionally, Dr. Sagggar suggested that recovering to pre-pandemic trend should not guide monetary policy at this stage and the policy focus should be on non-inflationary sustainable growth in the economy. Further, Dr. Patra also affirmed that all pandemic related extraordinary measures taken by RBI will cease by Apr-23.

Given the tone of urgency in RBI's MPC minutes to signal the altered inflation-growth dynamics, we expect a revision in formal stance from accommodative to neutral, followed by a cumulative 50 bps hike in the repo rate to be delivered between June and March FY23. If the headline CPI print continues to be near or above 7.0% in Q1FY23, we would expect some of the expected monetary actions to happen by Aug-22. Also, any further acceleration in global commodity prices could potentially tilt the balance in favor of another 25-bps repo rate hike.

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