

Press Release

MPC Minutes: Dec-21: Support for growth in backdrop of higher global risks

27 December 2021

In the last MPC meeting held between 6-8 Dec 2021, the RBI maintained status quo on interest rates, while reiterating its accommodative stance for the ninth consecutive time. While the former decision was completely unanimous backed by a 6-0 voting outturn, the latter saw a dissent with 5-1 voting outturn for the third consecutive meeting.

The MPC members turned increasingly cautious of the risks emanating from global factors due to resurgence in Covid infections with new virus mutations, persistent raw material shortages, supply chain bottlenecks along with divergences in policy actions globally amidst persistent rise in inflationary pressures. One of the MPC members, Dr. Sagggar advocated the need for careful calibration and avoid actions that may kindle any stagflation scenario amidst slowing global growth. Similarly, Dr. Patra expressed his concern over global growth stating that the outlook has further darkened as countries have imposed fresh travel bans, quarantine, and social distancing measures in order to contain the spread of Omicron. On the domestic front, while the members were broadly in agreement that growth prospects have been gradually improving and the economic activities were almost at par with the pre-Covid levels, members highlighted that pattern of recovery was uneven across sectors. For a sustained and broad based growth revival and to insulate the economy from evolving global risks the MPC highlighted the need for continued policy support.

On inflation front, the member did highlight concerns over a flare-up in vegetable prices due to unseasonal rains in the month of Oct-Nov'21 along with consistent pressure on core inflation which has continued to hover around 6.0% in the current fiscal. However, strong progress in rabi sowing, the latest moderation in global crude oil prices and cut in excise and VAT by central as well as some state governments on retail fuel seem to have provided comfort to some extent. Dr. Sagggar opined that the passthrough of producer prices to retail levels need to be carefully monitored and the MPC should be ready to act if the need arises. He further added that if growth improves, the MPC should use this opportunity to nudge inflation and inflation expectations lower. Prof Jayanth Varma, the sole dissent for keeping the stance accommodative, maintained that it was no longer appropriate to stick to the accommodative monetary policy stance and persisted with his firm view of reducing the width of the LAF corridor by increasing the reverse repo rate from the current 3.35%. He added that raising effective money market rates quickly towards 4% would demonstrate the MPC's commitment to the inflation target, help anchor inflationary expectations, reduce risk premia, enhance macroeconomic stability, and allow lower long-term interest rates to be sustained for longer thereby aiding economic recovery.

Nevertheless, the overall minutes reflect a broader consensus within the MPC that the nascent growth impulses need to be nurtured further through the accommodative policy stance while remaining vigilant of any durable inflationary pressures. Given that the growth-inflation dynamics are fraught with increased uncertainties arising primarily out of the global factors, the actions of the central bank need to be gradual, calibrated, and well-timed to avoid any undue surprises.

On the policy front, Acuité believes that while the calibration of the surplus system liquidity will continue till the next policy meeting, it would be difficult to comment on the timing of the reverse repo rate hike. There may be a possibility of such an increase in Feb-22 provided the high frequent economic indicators continue to remain robust. Continuing uncertainty on the residual risks of the pandemic can reinforce the 'wait and watch' approach of RBI, thereby slowing down the progress on the policy normalization path.

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