

Press Release
MPC Minutes: Feb-22
RBI stays dovish with consensus to support growth

25 February 2022

Defying the market expectations for an initiation of formal policy normalization through a hike in the reverse repo rate, the MPC members opted for keeping status quo on the benchmark rates while continuing with an accommodative stance in Feb-22 MPC meeting for the tenth consecutive time. The continuing pause was primarily driven by uneven growth recovery which was partly dented by the spread of Omicron variant, expected moderation in domestic inflation trajectory after a transitory spurt in Q4 FY22, along with rise in global uncertainties amidst geo-political unrest.

The members have continued to remain cautious of the risks emanating from global variables. However, with the global economy witnessing a drop in Covid caseloads the risks for now have shifted to the increasing geopolitical tensions between Russian and Ukraine which has further added pressures on already elevated commodity prices and could further exacerbate the supply chain bottlenecks. On the domestic front, given inconsistent growth recovery in certain pockets of the economy and private consumption yet to reach the pre-pandemic level, almost all members advocated the need for supportive monetary as well as fiscal policies for achieving a durable growth momentum. On the other hand, Prof. Varma continued to dissent on the accommodative stance and pointed out that the excessive stance on combating the ill effect of the pandemic has become counter-productive and it has been deflecting the focus of the MPC away from the core issue of addressing the structural recessionary trends since FY19. While continuing to highlight his discomfort over the abnormal width of the LAF corridor, he stated that with money market rates having moved close to the upper end of the corridor, the persistence of low reverse repo rate has now become somewhat innocuous.

On inflation front, the members underscored concerns over rising crude oil and commodity prices due to geopolitical tensions and acknowledged its importance as a monitorable parameter. Nevertheless, the members expect inflation rate to be on a sustained glide path over the course of the next financial year on account of expected benign food prices from another normal monsoon, supply side interventions by the government, likely moderation in crude oil prices along with easing of household inflation expectations. Amidst rise in inflationary pressures in the advanced economies (AEs), Dr. Ashima Goyal stated that spill over to domestic CPI from high inflation in AEs is unlikely as the structure of consumption is very different with imported consumer goods comprising of 12.1% of the Indian consumption basket as compared to 37.0% for US.

Overall, the minutes continued to reflect a broader consensus within the MPC that the still fragile and uneven growth impulses need to be fostered through the accommodative policy stance while remaining vigilant of any sustained 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.

As the recovery turns more sustainable, Acuité expects the RBI to gradually revert to its pre-pandemic policy corridor by hiking the reverse repo rate either in April or Jun-22. That said, the importance of the reverse repo rate hike as a benchmark has clearly reduced with money market rates having moved closer to the repo rate. On the other hand, the timing on the upward adjustment in the repo rate is difficult to comment on, given RBI's thrust on growth facilitation vs. the timeliness of monetary policy normalization.

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Media Contacts:

Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in	Sahban Kohari Ph: + 91-9890318722 sahban@eminenceonline.in
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Investor Outreach:**Analytical Contact:**

Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in	Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in
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