

MINUTES OF MEETING: NASCENT RECOVERY FLAGGED

All MPC Members Batted for Accommodative Policy Stance

Panel for retaining it well into the next fiscal year; RBI's deputy governor Patra flags financial stability and sticky core inflation as risk factors

Our Bureau

Mumbai:

The six members of the Reserve Bank of India (RBI) Monetary Policy Committee (MPC) were unanimous on the need to continue with an accommodative monetary policy well into the next fiscal year as recovery is still nascent and there's little to show on the investment revival front despite easy money, the minutes of the latest meeting show.

The MPC, at its February 3-5 meeting, voted unanimously to keep the repo rate--at which the RBI lends to banks--at 4%, and maintain the accommodative monetary policy stance to help revive the economy in a durable manner.

The minutes of the meeting were issued on Monday.

But a key member, deputy RBI governor Michael Patra, flagged financial stability and sticky core inflation as risks. That may warrant a measured rollback of pandemic-era measures despite lobbying in support of continuing with them.

"Shocks to economic activity from the winding down of exceptional pandemic measures will have to be balanced against the persuasive incentive to continue with them but with the risk of becoming immobilised in liquidity traps," Patra was cited as saying. "Core inflation will warrant close monitoring as it has the potential to render the recent fortuitous improvements in the macroeconomic outlook stillborn." The MPC said the monetary policy stance will remain accommodative well into the next year in order to help revive investments and nurture nascent growth.

'Risks of Excess Money Supply Downplayed'

"Accommodative monetary policy stance is needed to strengthen ongoing economic recovery enabling expansion of both output and demand," Shanshanka Bhide, an independent member, was cited as saying. That the MPC is convinced of the need for an easy monetary policy even in the next financial year, despite the threat of core inflation, was reflected in just a single paragraph written by member JR Varma compared with 14 by Bhide. "With both inflation and growth outcomes being well within the range of expectations of the MPC, and shortterm interest rates being within the corridor defined by the repo and reverse repo rate, there is nothing to be done and there is nothing to be said as of now," Varma had said.

Consumer price index (CPI) inflation is projected at 5.2% in the current quarter, 5.2-5% in the first half of the next fiscal year and 4.3% in the third quarter. The economy is forecast to grow at 10.5% next year.

"While banking liquidity remains plentiful, MPC members downplayed the risks of excess money supply leading to inflation...," said Rahul Bajoria, economist, Barclays.