

APRIL MPC MINUTES

22 April 2021

MPC steadfast on growth

MPC believes that recovery will be impacted by second wave. Thus members voted to keep accommodative stance for as long as necessary to sustain growth on durable basis even as time based guidance was removed. While inflationary pressures from increase in international commodity prices will be seen in core CPI, impact on headline will be limited due to benign demand side environment. We continue to expect RBI to reduce the rate corridor in H2 before raising repo rate in early FY23 as second wave ebbs in Q2FY22.

Sameer Narang

Aditi Gupta | Sonal Badhan

chief.economist@bankofbaroda.com

Recovery losing steam and away from potential: MPC members noted that while economic momentum was seen in Q3 and Q4FY21, recent surge in Covid-19 infections pose a considerable risk to recovery. Dr. Goyal pointed out that growth uncertainty has increased with second wave in some states. She further stated that even with the high rate of growth estimated for FY22, GDP will be barely at level seen in Mar'19. It does not imply sustained growth at potential. Dr. Saggari said that the high growth in FY22 implies an average growth of 0.85% over two years. Shri Shaktikanta Das, RBI Governor, said that learnings of last one year should help us in managing the crisis as it unfolds.

Pressure on inflation: Rising global commodity and food prices pose a risk to inflation. Dr. Saggari pointed out that imported commodities form 22% of CPI. A rise in global non-food commodity prices by 10% is expected to increase CPI core goods inflation up to 50bps. Even so, pass-through to headline is low. Demand pull inflation is more or less absent. While food inflation outlook is better on account of large cereal stocks and expectation of normal monsoon, 5 out of 12 food sub-groups recorded double digit inflation in Feb'21. Shri Das said that both upside and downside pressures are embedded in RBI's baseline of CPI inflation at 5% in FY22 comprising of 5.2% in H1 and 4.8% in H2.

Normalisation of monetary policy: All members agreed that supporting growth takes priority. While MPC members have moved away from time-based guidance to state based guidance, Dr. Saggari pointed out that considerable adjustments have been made in exit dates for extra-ordinary supportive measures. With second wave likely to ebb in Q2, we expect RBI to move towards recalibrating the width of rate corridor (difference between repo and reverse repo rate) in H2FY22 before raising repo rate in early FY23. Sector specific relief measures may be announced to tide over second wave.

KEY HIGHLIGHTS

- MPC members to keep rates on hold and maintain accommodative stance.
- Risks to growth from a resurgence of Covid-19 cases.
- Core inflation likely to remain elevated with upside risks.



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Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com