

DECEMBER MPC MINUTES

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Balancing growth and inflation

MPC members stated that growth has surprised positively. However, inflation is a teething issue. RBI's monetary policy and accommodative stance has helped in economic recovery. But at the same time, asset prices have moved higher, in India and globally. Fiscal spending is likely to pick up in Q4FY21. However, fiscal space is constrained because of which monetary policy needs to remain accommodative. But given the inflation outlook, RBI may look at calibrated withdrawal of liquidity support starting in FY22.

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Recovery on tight rope: MPC members agreed that while GDP growth in Q2FY21 was much better than anticipated, risks to growth remain. RBI Governor, Shri Shaktikanta Das, pointed out that investment recovery is yet to gain traction even as transmission has been quicker and sharper. Dr. Patra termed the current recovery as hesitant and uneven. Dr. Saggar expects capacity utilization to remain below 70% in FY21 and the output gap to close only in H2FY22. All members agreed monetary support is required till growth stabilizes particularly when government spending is weak.

Inflationary pressures remained elevated: All MPC members unanimously agreed that upside risks to inflation are likely to persist in the near term. Dr. Bhide pointed out that "Imbalances in the supply and demand conditions are impacting the price scenario". Dr. Patra said that elevated inflation has checked in and may be here to stay. Prof. Varma said that low rates have been feeding into asset markets rather than goods price inflation. Reduction of rates carries significant risks and very little rewards. We expect CPI inflation to come down to 4.5% in FY22 from 6.5% in FY21.

Policy space is limited: Dr. Patra pointed out that with growth gaining momentum, window available to MPC to look through inflation pressures is narrower than before. However, Shri Das reiterated that premature rollback of monetary and liquidity policies of RBI would be detrimental to nascent recovery and growth. Thus all threats to price stability and possible spill overs to broader macroeconomic and financial stability is to be monitored. The discussion on liquidity by members shows that MPC is discussing the impact of current liquidity on asset markets, inflation and financial stability. A gradual recovery implies calibrated liquidity management by RBI going forward.

KEY HIGHLIGHTS

- MPC members see inflationary concerns to persist till H1FY22.
- MPC optimistic on growth.
- Further rate cuts unlikely.



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