## FEBRUARY MPC MINUTES

22 February 2021

# MPC points to medium-term inflation risks

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**The decline in CPI inflation has vindicated the MPCs lexicographic preference of growth over inflation. In FY22, growth is expected to rebound to 11.5%. MPC will have to manage the trilemma (corresponding inflation risks) of global flows, currency movement and commodity prices. The growth inflation matrix calls for normalisation of monetary policy with fiscal policy changing gears to crowd-in private investments. As a first step, RBI has raised CRR back to 4%. However, RBI's OMOs will supplement durable liquidity at the long-end.**

### KEY HIGHLIGHTS

- MPC members to keep rates on hold and maintain accommodative stance.
- MPC believes growth to rebound in FY22.
- Core inflation stickiness and higher crude prices pose upside risks to inflation outlook.

**Recovery gathering pace:** MPC members agreed economic recovery gathered pace in Q3FY21 and momentum is maintained in Q4, owing to recovery in manufacturing and rural demand. RBI Governor, Shri Das pointed out that Indian economy will expand by 10.5% in FY22 based on assessment that India is witnessing a multispeed recovery. However, contact intensive services are likely to recovery with a lag. In view of expansionary fiscal policy and accommodative monetary policy, Dr. Saggar believes that capacity utilization is likely to near 70% by end of FY22 and that output gap will close by Q4FY22. Dr. Patra stressed on the need for building capital cushion for dealing with potential loan defaults and ensuring availability of credit.

**Core inflation remains elevated:** Most MPC members agreed that there are inflationary pressures emanating from higher global oil and commodity prices and pass-through into real economy. Dr Saggar pointed out that food prices are at bottom and are likely to go up. In addition, there is upside risk to inflation from core inflation stickiness and higher crude prices. However, he also reiterated that the same has been embedded in RBI's baseline projections. Dr Patra also agreed that stubborn core, high commodity prices, and inflows into capital markets increase the risk of imported inflation.

**Gradually draining out liquidity:** Dr. Patra summed up the monetary policy outlook by stating that near-term outlook for inflation appears less risky than the near-term challenges for growth. RBI Governor, Shri Das pointed out that time based guidance used in Covid-19 period. Going forward, markets need to factor in forward guidance with respect to two-phase normalisation of CRR which opens up space for a variety of operations to inject liquidity such as OMOs. We believe RBI will remain on hold and gradually drain out excess liquidity between now and Mar'22 while conducting OMOs.

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