

DECEMBER MPC MINUTES

22 December 2021

Swiss Knife approach

MPC members believed that growth recovery is not durable. Further, rising Omicron cases have brought in added uncertainty. Members noted that private consumption has still remained below pre pandemic level. Even recovery in investment demand has been bleak. On inflation, members agreed that it is persistent and pose considerable upside risk. However, at the current uncertain juncture, MPC members have given growth a priority and decided to provide policy support.

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Status Quo supportive of growth: MPC members noted that while the economy has shown significant progress in terms of recovery; sustaining this recovery remains a challenge. Shri Das pointed that there continues to be a slack in key drivers like private consumption which are still below their pre-pandemic levels. MPC members also pointed out that recovery in investment demand has been bleak. Dr Bhide noted that its revival will be key to sustaining the momentum of growth. Hence, members expect RBI to remain steady, watchful and battle ready.

Key highlights

- MPC members believed growth recovery not durable.
- Upside risks to inflation persist.
- Reverse repo rate hike is expected in Q4, and repo rate hike in Q1FY23.

Upside risks to inflation persist: MPC members believed risks to inflation might emanate from supply constraints, rising gold prices on safe haven demand and higher telecom tariff which will impact inflation print from Dec'21 onwards. Dr Bhide pointed out that high level of 'core inflation is a concern' impacting consumption demand and firms' profitability. Dr Saggur also said to be 'eagle-eyed' about the pass through of higher producer prices to retail. Dr Patra said that 'inflation has checked in as if it is here to stay'. He also commented that core inflation will keep the economy on toes. Shri Das also pointed that supply chain disruption which might emerge from Covid-19 related restrictions, would also impact inflation in the near term.

Growth given precedence: MPC members believed that growth required more handholding as they doubted the durability of recent green shoots of recovery. Even high frequency indicators have fallen in Nov'21 as pointed out by Dr Patra. He also warned off 'mistake of premature tightening' in the event of global spillovers and divergent macroeconomic situation. Shri Das said that 'uncertainty is emerging as the only certainty' hence requiring 'continued policy support'. Thus, MPC have decided to maintain status quo and act in accordance to incoming data. Dr Goyal also said that 'stability requires monetary policy to respond early but slowly'. Even Dr Saggur pointed that shift towards tightening cycle will be possible 'when it is clear that demand revival has acquired resilience'. Thus, we expect reverse repo hike in Q4 and repo rate hike in Q1FY23. RBI may choose to be behind the global policy curve on account of being over cautious.



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