

RBI Keeps Lending Rates Unchanged, Retains GDP Growth, CPI Inflation Targets For FY22

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Amid the scare of the Omicron variant, the six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) has maintained the status quo on key rates in its bi-monthly policy statement for the ninth consecutive time, said Governor Shaktikanta Das on Wednesday.

According to the official statement, the RBI has kept the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent, the reverse repo rate at 3.35 (unchanged) per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

"The MPC expectedly maintained the status quo on the policy rates and stance. The rhetoric to has remained focused on maintaining durable growth as long as inflation remains well in check. We continue to expect the RBI to fine-tune the surplus liquidity to manage rates and consequently provide guidance on the operating target rate shifting closer to the Repo rate. We retain our base case of a reverse repo rate hike in February," said Senior Economist at Kotak Mahindra Bank, Upasna Bhardwaj.

The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

"The policy was as expected and cautious on the uncertainty due to the Omicron variant. Also, the RBI continued with the liquidity normalisation on expected lines without any explicit signal of liquidity withdrawal. The inflation estimates are also lower than what the markets are expecting. Broadly, the policy is more dovish-than-expected, possibly given the uncertainty from the new COVID variant. If the Omicron variant is benign, we expect a reverse repo hike of around 20 bps possible in the February policy and tad more aggressive liquidity withdrawal," said Senior Economist, Kotak Institutional Equities, Suvodeep Rakshit.

As per the Central Bank, these decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Talking about the domestic economy, data released by the National Statistical Office (NSO) on November 30 showed that real gross domestic product (GDP) expanded by 8.4 per cent year-on-year (y-o-y) in Q2:2021-22, following a growth of 20.1 per cent during Q1:2021-22. With the recovery gaining momentum, all constituents of aggregate demand entered the expansion zone, with exports and imports markedly exceeding their pre-COVID-19 levels. On the supply side, real gross value added (GVA) increased by 8.5 per cent y-o-y during Q2:2021-22, it said.

“Despite the risk to rising inflation and gradual reversal of stance by some prominent Central banks across the world, the Reserve Bank of India has been bold enough to continue with its accommodative policy stance. We hope this will boost sentiment in the economy as a reversal of accommodative policy is the last thing industry wants in this uncertain pandemic scenario and rising input cost. While RBI’s move to hike the all-in-cost ceiling for export credit on Wednesday amidst the shift in benchmark interest rate from LIBOR to alternative market benchmarks, may marginally increase interest cost for Indian exporters of foreign currency loans, the overall cost will still be less than that incurred on rupee loans, said Chairman and MVIRDC World Trade Center, Mumbai Vijay Kalantri.

The recovery in domestic economic activity is turning increasingly broad-based, with the expanding vaccination coverage, a slump in fresh COVID-19 cases and rapid normalisation of mobility. Rural demand is expected to remain resilient. The spurt in contact-intensive activities and pent-up demand will continue to bolster urban demand. The government’s infrastructure push, the widening of the performance-linked incentive scheme, structural reforms, recovering capacity utilisation and benign liquidity and financial conditions provide conducive conditions for private investment demand, RBI said.

The volatile commodity prices, persisting global supply disruptions, new mutations of the virus and financial market volatility pose downside risks to the outlook. Taking all these factors into consideration and assuming no resurgence in COVID-19 infections in India, the projection for real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 6.6 per cent in Q3; and 6.0 per cent in Q4:2021-22. Real GDP growth is projected at 17.2 per cent for Q1:2022-23 and at 7.8 per cent for Q2, it said.