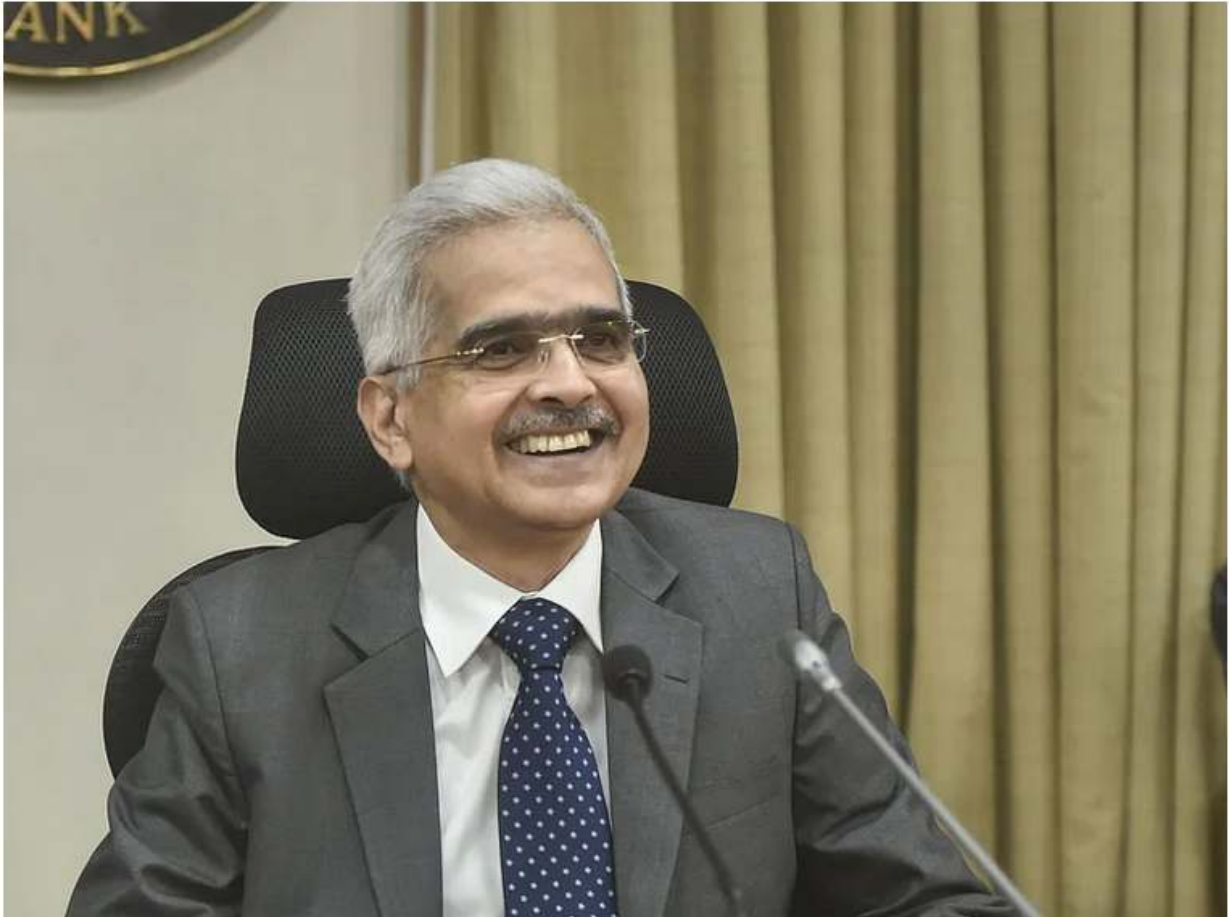


RBI's 'resolute pause' in policy rates to boost growth, credit offtake

FPJ Web Desk



The governor is confident about growth and didn't show much worry about inflation and therefore the market is witnessing a bullish momentum post policy/ Representational image |

The markets are buoyant as the RBI has retained repo rates and kept stance unchanged. The Governor has assured the markets of ample liquidity while announcing higher VRRRs to absorb the excessive systemic liquidity, and this announcement has enthused the markets.

The announcements made in Reserve Bank's policy were consistent to the needs of the current situation. The optimism of policymakers about a steady economic recovery would only cushion the market sentiments to move up the growth graph, market participants said

Reactions from economists and others

Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities

The RBI policy, as expected, remained cautious and in a wait-and-watch mode. Even as it increased the quantum under the 14-day VRRR auctions and opened the option of 28-day VRRR auctions, it adequately sounded out on its dovishness and the need to ensure liquidity conditions remain comfortable. We do not see the RBI in a hurry to normalize liquidity conditions as well as the reverse repo rate in the near term. We continue to see the February policy as the earliest period of review for the RBI to narrow the policy rate corridor by raising the reverse repo rate.

S. S. Mallikarjuna Rao, MD and CEO, Punjab National Bank

The growth projections has been retained and the CPI inflation projections has been moderated. As expected there is no change in policy rates. The gradual and calibrated unwinding of liquidity measures will support growth while keeping inflation under control.

Announcement of a framework of retail digital payment in offline mode across the country, increasing per transaction limit of IMPS from Rs 2 to Rs 5 lakh and geo-tagging of physical payment acceptance infrastructure, will support financial inclusion and is another step in a journey towards creating a digital financial infrastructure.

Bank lending to NBFCs for priority on-lending extended for 6-months upto March 31, 2022 will encourage flow of credit and support growth at the grassroots level.

Indranil Pan, Chief Economist - Yes Bank

The RBI was clear about the fact that it would be careful of not rocking the boat in any way. Even the stance of the policy remained accommodative with no change in the language. This means that RBI vows to stay accommodative for as long as necessary to revive and sustain growth on a durable basis. The comfort to the RBI is possibly derived from the evolution of the inflation trajectory, that appears to be much better than its own anticipation. This also led RBI to bring

down the year's Headline CPI average estimate down by 40bps from 5.7 percent previously. With growth conditions expected to be getting relatively better, RBI is trying to formulate a path to come out of the extraordinary accommodation during COVID-19.

The RBI has kept the room open for a reverse rate repo increase in the upcoming December policy. No changes are envisaged to the Repo rate in the current fiscal and can only be addressed in FY 2022-23 after a thorough understanding of the evolving growth-inflation mix.

Nilesh Shah, Group President & MD, Kotak Mahindra Asset Management Company

RBI policy is a "Mai Ho Naa" policy aimed to achieve multiple objectives. Keep Growth Supported, Inflationary expectations under check, Financial Markets stable, Liquidity adequate and appropriate, Yield Curve in shape and ensure smooth passage of Govt's borrowing Program. They have reassured the markets that monetarily policy normalization will be gradual and calibrated.

Anagha Deodhar, Chief Economist, ICICI Securities

The rate decision as well as the voting pattern in today's monetary policy review was along expected lines. The MPC lowered inflation forecast for FY22 to 5.3 percent (from 5.7 percent in the August review), mainly due to lower expected inflation prints in Q2 and Q3. While it retained growth forecast for FY22 at 9.5 percent, it added that the external environment is turning more uncertain and challenging. On the regulatory front, the RBI extended SLTRO for small finance banks till Dec 2021, decided to continue with extended WMA limit till March 2022, and extended inclusion of on-lending to NBFCs in priority sector till March 2022.