

Monetary Policy Rates

Why in news?

In the recently held MPC meeting, RBI has decided to keep the policy rates unchanged for the third time in a row.

Why has MPC opted for status quo on rates?

- It is of the view that inflation is likely to remain high excepting in winter months.
- Moreover efforts are required to break the inflation spiral being fuelled from supply chain disruptions, indirect taxes & to mitigate supply-side driven inflation pressures.
- So it avoided in using its space available to act in support of growth.

What are the prospects on the inflation?

- The outlook for inflation is unfavourable as a significant margin is present between wholesale and retail inflation & supply-side bottlenecks will affect consumers.
- The RBI has projected CPI inflation at 6.8 % for the Q3 of 2020-21, 5.8 % for Q4 of 2020-21 and 5.2 % to 4.6 % in the first half of 2021-22, with risks broadly balanced.
- Although cereal and vegetable prices may ease, other food prices are likely to persist at elevated levels.
- With the continuation of OPEC-plus production cuts, crude oil prices are likely to remain volatile in the near-term.

Is the recovery picking up momentum?

- The panel said recovery in rural demand is expected to strengthen further & urban demand will also gain momentum as unlocking spurs activity and employment.
- However, this can be affected by rise in infections in some parts of the country leading to local containment measures.
- GDP is expected to expand by 21.9 per cent to 6.5 per cent in the first half of 2021-22.
- Exports are on an uneven recovery but will progress with arrival of vaccine.

- Demand for contact-intensive services is likely to remain subdued for some time due to social distancing norms and risk aversion.
- On the whole, consumers remain optimistic about the outlook, business sentiment of manufacturing firms is gradually improving, & fiscal stimulus supports growth-generating investment.

What is the RBI's forward action plan?

- It said that for ensuring ample liquidity in system, instruments like OMO purchases, operation twists and reverse repos will be deployed.
- This will ensure financial stability is maintained all the time.
- It has also decided to continue with the accommodative stance as long as necessary — to revive growth and mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains within the target.

Source: The Indian Express, Business Line