# RBI bats for growth over inflation

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- **Citing inflation as a transient worry, the central bank retained its accommodative policy stance with reviving the economy as the primary objective.**

The Reserve Bank of India on Friday kept policy rates unchanged as inflation remained stubbornly high, but unleashed an array of other tools to reduce borrowing costs in a bid to revive growth in Asia's third-largest economy.

Citing inflation as a transient worry, the central bank retained its accommodative policy stance with reviving growth as the primary objective.

While the RBI's rate action was on expected lines, governor Shaktikanta Das's commentary that the economy is poised for a mild recovery in the fiscal fourth quarter, in a year when the gross domestic product (GDP) is set to post its biggest contraction since Independence, offered hope amid a parade of grim news.

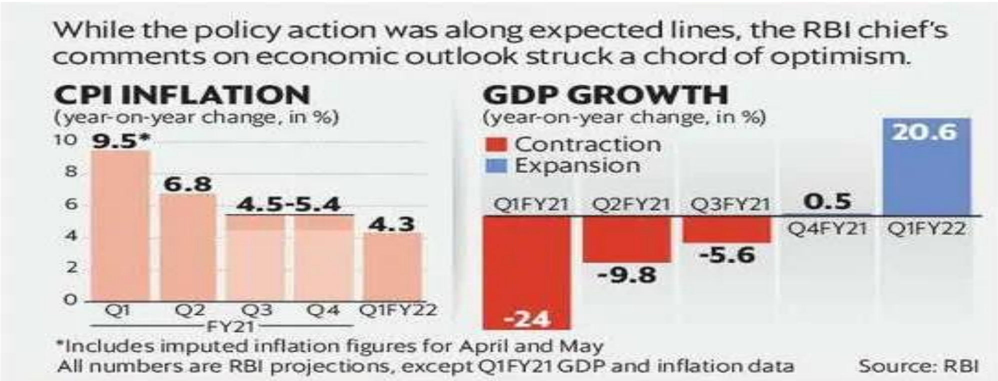
Das said several economic indicators in recent months have pointed to a need for the growth impetus to sustain the current momentum as green shoots are visible in several sectors of the economy.

"Focus must shift from containment to revival," he said, citing strong food grain production, rebound in purchasing manager indexes, auto sales, exports and early signs of a turnaround in RBI's consumer confidence survey.

For the full year, RBI expects a GDP contraction of 9.5% with risks tilted to the downside.

RBI said growth is expected to improve dramatically in the first quarter of the next fiscal at 20.6%. This will be driven by a three-speed recovery with pandemic-resilient sectors (such as agriculture, FMCG, auto, drugs and electricity) recovering faster, followed by recovery in "strike form" sectors, where the activity normalization is more gradual and the contact-intensive "slog overs" sectors that are hit the most due to the social distancing.

"By all indications, the deep contractions of the first quarter are behind us; silver linings are visible in the flattening of the active caseload curve. Barring the incidence of a second wave, India stands poised to shrug off the deathly grip of the virus and renew its tryst with its pre-Covid growth trajectory," he said.

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RBI’s measures to revive growth included infusion of additional liquidity and transmission of policy measures to borrowers. RBI said that it will introduce on-tap targeted long-term repo operations (TLTRO) for banks to borrow up to ₹1 trillion from the window and invest in corporate bonds and other debt instruments of certain sectors. It also said that the size of open market operations, under which the RBI buys and sells government securities, will be increased to ₹20,000 crore to flatten the yield curve further and keep interest rates benign.

“This is important from the point of view of a smooth and seamless transmission of monetary policy impulses as well as the completion of market borrowing programmes of the Centre and states in a non-disruptive manner with a normal evolution of the yield curve," Das said.

This was RBI’s first policy review under the newly constituted monetary policy committee, which voted unanimously to keep the repo rate unchanged at 4%. All members except Jayanth R. Varma voted to continue with the accommodative stance for an extended period, or at least till the next financial year, to revive growth on a durable basis while ensuring inflation is within the target.

“We remain circumspect about generalizing these early green shoots, as they have benefited from base effects and one-off shifts in some sectors. With fresh covid-19 infections elevated, although admittedly lower than earlier levels, we expect economic agents to adjust to a new normal, and foresee a slow grind back to the pre-covid levels in many sectors," said Aditi Nayar, principal economist, ICRA Ltd.

In a note, Nomura’s chief India economist Sonal Varma said RBI’s commitment to keeping its stance ‘accommodative’ into FY22 is a particularly strong one. Combined with its commitment to provide liquidity and manage bond supply, the policy measures are geared towards ensuring that transmission across markets (money, bonds, bank lending) does not freeze and that monetary policy remains active.