

RBI likely to maintain status quo in its upcoming monetary policy, say experts

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Amid global scare due to new coronavirus variant Omicron, the Reserve Bank of India is likely to maintain status quo in its upcoming monetary policy and wait for a more opportune time to calibrate benchmark interest rate to promote growth without sacrificing the main objective of containing inflation.

The Reserve Bank Governor-headed Monetary Policy Committee (MPC) is scheduled to meet during December 6-8, 2021. The decision of the rate setting panel would be announced on Wednesday (December 8). The central bank had kept the benchmark policy rate unchanged in October.

"...we believe the talks of a reverse repo rate hike in the MPC meeting may be premature as RBI has been largely able to narrow the corridor without the noise of rate hikes and ensuing market cacophony," said an SBI research report.

According to it, the RBI is not obliged to act on reverse repo rate only in MPC. "Also, change in reverse repo rate is an unconventional policy tool that the RBI has effectively deployed during crisis when it moved to a floor instead of the corridor," it added.

A Kotak Economic Research report said with uncertainty around the new Covid variant, the RBI would possibly wait for some clarity before moving decisively on rates.

"We maintain our call for a reverse repo rate hike in February with the December meeting remaining a close call. We expect the RBI to continue on its path of normalisation with the reverse repo rate hike in February policy and repo rate hike in mid-2022-23," it said.

Property consultant Anarock said there have been expectations that the RBI may raise the reverse repo rate to a nominal extent during the forthcoming monetary policy.

"However, it is likely that the RBI will hold on to the current regime in reaction to the flare-up of Omicron concerns at a time of generalised economic recovery. Therefore, home loan borrowers may enjoy the ongoing low interest rate regime for some more time to come," said Anuj Puri, Chairman, Anarock Group.

That said, an increase in repo rates and consequent increase in home loan interest rates is inevitable and will definitely take place in the future, he added.

If the RBI maintains status quo in policy rates on Wednesday, it would be the ninth consecutive time since the rate remains unchanged. The central bank had last revised the policy rate on May 22, 2020, in an off-policy cycle to perk up demand by cutting interest rate to a historic low.

The RBI has been asked by the central government to ensure that the retail inflation based on the Consumer Price Index (CPI) remains at 4% with a margin of 2% on either side. The Reserve Bank had kept the key interest rate unchanged in its after monetary policy review in August citing inflationary concerns.

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In its October MPC meeting, the central bank had projected the CPI inflation at 5.3% for 2021-22: 5.1% in the second quarter, 4.5% in third quarter; 5.8% in the final quarter of 2021-22, with risks broadly balanced. CPI inflation for the first quarter of 2022-23 is projected at 5.2%.

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