

MPC meet: Analysts bet on rate retention, revision of forecasts

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THE MONETARY Policy Committee (MPC) of the Reserve Bank of India (RBI), which begins its three-day meeting on Wednesday, is likely to keep the main policy rates unchanged in the first bi-monthly policy review this fiscal.

Analysts said the MPC is likely to revise the growth and inflation forecasts in the wake of the rise in crude oil and commodity prices. In the previous policy meeting on February 10, the RBI kept the repo rate — the rate at which it lends to banks — unchanged for the tenth time in a row at 4 per cent. The big question is whether or not the RBI will change its accommodative policy. The US Federal Reserve had raised interest rates last month to tackle high inflation.

“We expect the RBI MPC to stay on hold on all rates on April 8 while retaining their accommodative stance. We then see the MPC turning neutral in June alongside raising reverse repo rate by 40 bps, normalising the policy corridor. Thereafter, as favourable base effects fade and CPI inflation rises further, we see the RBI MPC delivering their first repo rate hike of 25 bps in August,” said a Bank of America Securities report.

The RBI projected real (adjusted for inflation) gross domestic product (GDP) growth projection at 7.8 per cent for FY23 in the previous policy. Retail inflation was at 6.07 per cent in February.

“We believe that the RBI may maintain the status quo as far as



The Reserve Bank of India's Monetary Policy Committee will begin its three-day meet on Wednesday. File

rate actions are concerned. However, it may try to give some solution for generating demand for the higher-than-expected borrowing scheduled for FY23,” said Prashant Pimple, MD & CIO-debt, JM Financial Asset Management. “The RBI would most probably revise the GDP estimates lower on the current disruptions and raise the inflation forecast,” he said.

With the Russia-Ukraine war continuing, commodity prices remain elevated. Global markets are analysing the impact of this on global inflation and trajectory of growth. “The rise in Covid-19 cases in China have posed another downside risk to economic recovery. On the domestic front, Rs 6.4 per litre rise in retail fuel prices this month added to inflation burden on consumers. We expect RBI to take note of this and consider changing its accommodative stance in the upcoming meeting,” said a Bank of Baroda report.

Analysts also expect the RBI to announce measures to ensure non-disruptive execution of government borrowing programme.