



**Key takeaways
MPC Minutes - Aug'21**

Inflation dominates the MPC deliberations

- All the six MPC members have highlighted the risks of persistently high CPI inflation which is still hovering near the upper band of the target range of 2%-6%.
- At the same time, most of them believe that the inflation spike seen during the lockdown periods was due to supply bottlenecks and an upsurge in commodity prices, hence transitory in nature.
- The majority also was of the view that the outlook on inflation has moderated with an improved kharif sowing in the current season and a drop in commodity prices on the back of a weaker global growth outlook in CY2021, given the uncertainty on new virus strains.
- While the members have taken on board some of the supply side measures taken by the government to control the prices of edible oils and pulses, most of them felt that **“indirect taxes on fuels are imparting persistence to inflation”** and **“additional supply side support from government can de-anchor inflationary expectations”**

Cautious optimism on recovery but queries emerge on policy normalization

- On the growth front, MPC members remained cautiously optimistic with domestic consumption, external demand and public spending gradually gaining traction amidst unwinding of lockdown restrictions after second Covid wave.
- Some of them pointed out that “**many high frequency indicators remain below pre-pandemic levels**” and “**capacity utilization rates are still abysmally low**”.
- MPC noted that most advanced economy central banks are cautious on withdrawal of accommodative stance given the uncertainty in growth outlook and would assess “durable” inflation levels before any affirmative action.
- Most of the members are convinced about the need to maintain the accommodative stance till durable demand makes a comeback; one of them went to the extent of saying “**monetary policy support should continue till the investment cycle starts durably**”
- One of the MPC members, however struck a dissent note and was in favour of a gradual policy normalization through an increase in the reverse repo rate and restoration of the LAF corridor width; he felt a “**hard look at the accommodative stance**” is now necessary as it “**appears to be stimulating asset price inflation to a greater extent than mitigating economic distress**”.

Conclusions from the MPC Minutes

- MPC's decision to keep repo rate unchanged at 4.00% was unanimous while the decision to continue an accommodative stance was supported by a 5-1 vote.
- The minutes reflect a broader consensus within the MPC that the nascent growth impulses need to be nurtured through the accommodative policy stance and while one has to be watchful of any persistent inflationary pressures, any normalization process should be gradual and aligned to a sustainable economic recovery.
- Acuité, therefore does not expect the central bank to start normalization of accommodative stance before the end of Q3FY22 or during Q4FY22 when the policy corridor may be narrowed through a 50 bps hike in the reverse repo rate; this may be followed by a 25 bps repo rate hike in Q1FY23 if the growth indicators get firmly entrenched.