

Monetary Policy Review: RBI leaves interest rates unchanged

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The Reserve Bank of India (RBI) recently kept interest rates unchanged to help tame inflation that in recent times had surged past 6 per cent mark, and said that the economy is in an extremely weak condition following the pandemic.

The central bank also allowed lenders to restructure corporate and MSME loans as well as raised the limit of loans that can be availed against gold ornaments and jewellery.

Key Highlights

- After cutting interest rates by 115 basis points since February, the Monetary Policy Committee (MPC) after three days of deliberations voted unanimously to leave the policy repo rate unchanged at 4 percent.

- The MPC also decided to “continue with the accommodative stance of monetary policy as long as necessary to revive growth, mitigate the impact of COVID-19 while ensuring that inflation remains within the target” zone, RBI Governor Shaktikanta Das said.
- Das said the central bank would remain “watchful for a durable reduction in inflation to use the available space to support the revival of the economy”.
- While economic activity had started to recover from the lows of April-May, a surge in fresh infections has forced re-clamping of lockdowns in several cities and states to “level-off” various high-frequency indicators.
- The six-member MPC saw upside risks to food prices and elevated headline inflation during July-September, which would ease in the second half of the 2020-21 fiscal.
- It forecasts a contraction in real GDP growth for the April 2020 to March 2021 fiscal. Keeping interest rates unchanged will help achieve the medium-term target of consumer price index (CPI) inflation of 4 per cent with a band of +/-2 per cent while supporting growth, the RBI said.
- Das announced a Rs 10,000 crore additional special liquidity facility for the housing sector and smaller non-bank finance companies (NBFCs). To deal with economic disruptions caused by COVID-19, RBI allowed lenders to implement a resolution plan for corporate loans without change of ownership.

SOURCE: *The Hindu*