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RBI cuts FY22 growth forecast

Governor Shaktikanta Das said the impulses of growth were still alive but policy support was needed from all sides to nurture economic recovery

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RBI Governor Shaktikanta Das. Credit: PTI File Photo

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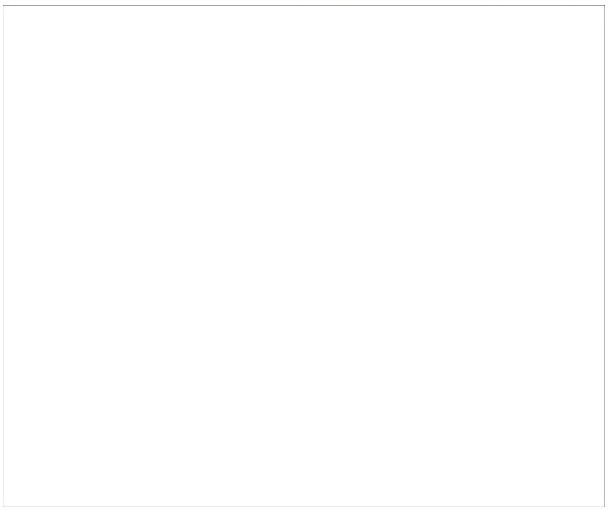
money into the system to expand economic activities as the second Covid wave threatened to derail the budding economic recovery.



The RBI will extend its monetary support through massive Rs 1.2-lakh crore government bond purchases to help keep interest rates low and support the government's borrowing plans to push the economy.

Governor Shaktikanta Das said the impulses of growth were still alive but policy support was needed from all sides to nurture economic recovery.

The central bank also left the key lending (repo) rate at a record low of 4%, ensuring bank loans do not get costlier and announced a special window of Rs 15,000 crore cheap loans for the pandemic-battered hospitality sector that will help hotels, restaurants, tourism, rent-a-car services, spa clinics, beauty parlours and the likes.

It also extended special liquidity facility of Rs 16,000 crore to SIDBI for on-lending and refinancing to small businesses. This is on top of the Rs 50,000 crore already announced by the central bank in April to all Indian financial institutions that included SIDBI.

Economists and sectoral experts welcomed the RBI's additional steps to revive growth.

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"The Covid-19-loan book idea, first announced in the April policy, has now been extended to the contact-intensive sectors. This is a positive move for these sectors that are currently facing the brunt of the second wave," said CARE Ratings Chief Economist Madan Sabnavis

SBI chief economist Soumya Kanti Ghosh however said there were limits to monetary policy

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funds raised through bond issuances. Corporate willingness for new investments remains low among all-pervasive uncertainty. Only fiscal policy can rekindle animal spirits at this juncture – monetary policy has almost nil headroom," Ghosh said.

Governor Das said the speed, scale and severity of the second wave of Covid-19 has impacted the economic recovery but added that unlike the first wave of the infections which brought the economy to an abrupt standstill under a nationwide lockdown, the impact of the second wave is expected to be relatively contained.

In addition to cutting growth forecast, the RBI also projected inflation to be at 5.1% in the fiscal, which is at the higher end of its target band.

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