MPC meet: RBI may maintain status quo on rates, announce steps to check spike in bond yields

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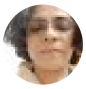

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nearly two years ago to fight the Covid pandemic.

The central is, however, likely to leave interest rates unchanged this time around to help the government's capital expansion programme to culminate into better economic growth.

"We expect the RBI to retain its accommodative policy stance as well as keeping interest rates unchanged. Support to ensure sustainable growth would continue to be the focus. Alongside this, it would go on with trimming the liquidity surplus in the system by using its primary tool of variable reverse rate auctions.

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"Many recent domestic and global developments call for a contractionary monetary policy and would test the RBI's commitment for maintaining an easy monetary policy despite the still uneven growth in the domestic economy," said CareEdge.

It said that the policy statement would be closely watched for signals of a shift in policy stance and the potential timelines for change in policy rates.

Elevated consumer inflation and high inflationary expectations on account of increasing crude oil and commodity prices, however, remained a concern.

"We believe the central bank will keep a close watch on consumer inflation, which is elevated but within the tolerance band... we expect the key policy rates will be maintained for sometime before the economy conclusively comes of the pandemic's third wave," said Vivek Ratji, Director Research at Knight Frank India.

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"We expect a status quo this time. Policy normalisation is set to commence in April with a stance

In the backdrop of a massive spike in bond yields post the Union Budget, a few economists, however, suggested the RBI may help douse the fire by announcing to buy long-end government debt and simultaneously sell short-tenor bonds to keep borrowing costs down.

“After a shocker for bond yields post-budget, all eyes are now on the MPC meeting. Given the mammoth borrowing for FY23, there are hopes for RBI to Announce OT(operation twist) which could act as an anchor to long term bond yields. We expect the reverse repo rate to be hiked with other rates unchanged. We do not expect any major tweaks to GDP or inflation forecasts.” Lakshmi Iyer, CIO (Debt) & Head - Products, Kotak Mahindra Asset Management Company.

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