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Economists, analysts see clear tapering signals in RBI moves

Economists and analysts are unanimous that the Reserve Bank has embarked on the long road to policy normalisation

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Last Updated at October 8, 2021 18:31 IST

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Economists and analysts are unanimous that the Reserve Bank has embarked on the long road to policy normalisation, and ending the special bond buying programme means both the economy in general and the Centre in particular will have to pay more for debt.

At the fourth bi-monthly monetary policy review on Friday, the RBI's rate setting panel MPC left all the key rates unchanged as expected and reiterated its whatever-it-takes approach to support growth and maintain liquidity.

However, in a significant signalling, Governor Shaktikanta Das announced the end of the bond buying programme (GSAP) along with a planned curtailment of variable rate reverse repo (VRRR) auctions. These two liquidity tightening measures have prompted analysts to warn that bond yields may trend up and average at 6.25 - 6.40 per cent this quarter.

Aditi Nayar, chief economist at ratings agency Icra, said the policy announcement was on expected lines on all fronts -- status quo on the rates, continuation of the long held accommodative stance, as well as a further step in the direction of liquidity normalisation with a pause in the G-SAP and the calendar for VRRR auctions.

The RBI is expected to keep the repo rate and accommodative stance unchanged until demand side factors become the clear driver of inflationary pressures and start to harden inflationary expectations so that it continues to nurture demand recovery, she said.

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Soaring energy costs and market trepidation of an imminent reverse repo hike had driven up the 10-year G-sec yield to 6.27 per cent on Thursday, despite a benign borrowing calendar for H2.

With the status quo on rates amidst a pause in the G-SAP programme, we now expect the 10-year G-sec yield to average at 6.25 - 6.40 per cent in Q3, unless there is a substantial magnitude of OMOs in this bucket, and crude oil prices recede under USD 70 a barrel, Nayar said.

larly, Abheek Barua, chief economist at HDFC Bank, said the policy has been in line with his expectations.

The RBI adopted a calibrated and patient approach towards managing liquidity and monetary policy support, recognising that there are still some downside risks to growth, he said.

Suspending the bond buying programme and providing a calendar to further increase the limit of the VRRR window to Rs 6 lakh crore by December are being perceived as liquidity normalization but some caveats are in order, Barua noted.

The extension in the limit of the VRRR window just offers a voluntary window for lower duration deposits and the end of the G-SAP programme implies no further infusion of liquidity into the system which is warranted given that systemic liquidity is already in excess at Rs 9 lakh crore, he said.

Though the these measures will push the yields up, he expects the upside to be capped by RBI intervention through OMOs and Operation Twists if they move above comfortable levels. He expects the 10-year G-sec yields to range between 6.20 - 6.30 per cent in Q3.

Rahul Bajoria, chief economist at Barclays India, opined that while RBI continued to stay on the sidelines, it strengthened its guidance that as the recovery gains momentum, accommodative policy conditions will be tapered.

As a first step, it shelved its bond purchases. We expect a 20 bps hike in the reverse repo rate at the December meeting, he said.

Radhika Rao, economist at DBS Group, said the RBI has delinked the accommodative stance with ending the bond purchase programm and limiting the VRRROs.

She also noted that the RBI stuck to the status quo notwithstanding the shift among the G10 central banks towards policy normalisation, by emphasising that a 'one size does not fit all' when it comes to the rate path, suggesting domestic considerations will outweigh global catalysts when it comes to changing the policy direction.

But in a clear tapering signal, it suspended the bond purchase programme after Rs 2.37 lakh crore purchases in H1 and Rs 3.1 lakh crore in FY21.

Care Ratings Senior Economist Kavita Chacko said the end of bond buying could pressure bond yields and push them higher. She expects the benchmark to rule around 6.30-6.40 for the remainder of Q3.

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