Fact Sheet: Monetary Policy
December 2020

FICCI

RBI leaves repo rate unchanged, GDP outlook improved

- *The Monetary Policy Committee (MPC) unanimously voted to leave the repo rate unchanged at 4.0 percent in the monetary policy resolution announced on December 4, 2020*

- *Consequently, the reverse repo rate under the LAF remained unchanged at 3.35 per cent, while the marginal standing facility (MSF) rate and the Bank Rate remained at 4.25 per cent*

- *The MPC also decided to continue with the accommodative stance of monetary policy for as long as necessary. It indicated that the stance would remain so at least during the current financial year and into the next year to revive growth on a sustainable basis while ensuring that inflation remains within the RBI's indicative target*

RBI Policy Action Since the Outbreak of the Pandemic

Key rates	February-2020	March-2020	April-2020	May-2020	August-2020	October-2020	December-2020
Repo rate	5.15%	4.40%	4.40%	4.00%	4.00%	4.00%	4.00%
Reverse repo rate	4.90%	4.00%	3.75%	3.35%	3.35%	3.35%	3.35%
MSF	5.40%	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%
CRR	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
SLR	18.25%	18.25%	18.25%	18.00%	18.0%	18.0%	18.0%
Bank rate	5.40%	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%

Reserve Bank of India's Inflation Guidance

The MPC's outlook on inflation turned adverse relative to expectations; inflation is now projected at 6.8 per cent for Q3 2020-21 and 5.8% for Q4 2020-21. Inflation is expected to be in the range of 5.2% and 4.6% in H1 2021-2022

Large margins being charged to consumer (as seen from the wedge between wholesale and retail prices), uptick in crude oil prices on the back of optimism of demand recovery along with production cuts as well as sticky cost push pressures were largely responsible for the upgrade in inflation projections

Reserve Bank of India's Growth Guidance

RBI upgraded its GDP growth forecast (-) 7.5% in 2020-21 from (-) 9.5% projected earlier

GDP growth to turn positive by Q3 2020-21: 0.1 per cent in Q3:2020-21; 0.7 per cent in Q4
(+)21.9 per cent to (+)6.5 percent in H1:2021-22

Demand conditions in the economy are improving, with both rural as well as urban demand gaining pace. Gradual unlocking has led to a spurt in economic activity and employment generation, thereby raising sentiments. While consumers are optimistic about overall prospects, business confidence levels have also seen improvement which is very encouraging

Moreover, shift in fiscal stimulus to support growth generating investments from initial focus on reviving consumption and liquidity conditions for businesses is likely to support a sustainable recovery in economic growth. Export sector is also showing signs of recovery, albeit uneven. Progress on the vaccines front is a big positive and holds key to recovery globally

However, rising Covid-19 infections in recent weeks has been a cause of worry and has the potential to cloud these positive impulses that are emerging. Furthermore, comparatively lower capacity utilization is resulting in weak private sector investments and is impeding a sustainable recovery in growth

Demand for contact intensive services too is likely to remain subdued for some more time due to renewed impetus of stricter social distancing norms

***Source:** RBI's Monetary Policy Statement, December 4, 2020*

Regulatory & Developmental Announcements

Liquidity Measures and Financial Markets

<u>On Tap TLTRO– Extension of Sectors and Synergy with ECLGS 2.0</u>

- On tap TLTRO announced on 9th October 2020 will be expanded to cover other stressed sectors. This will be done in synergy with the credit guarantee available under the Emergency Credit Line Guarantee Scheme (ECLGS 2.0)
- The move will encourage banks to extend credit support to stressed sectors at lower cost

Deepening Financial Markets

- Regional Rural Banks will now be allowed to access Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) of the RBI. They will also have access to Call/Notice money market. This will facilitate better liquidity management by expanding participation of RRBs in money markets
- Guidelines on Credit Default Swaps (CDS) are being reviewed to facilitate the development of credit derivatives market and to create a liquid, vibrant market for corporate bonds, especially for lower rated issuers; draft directions for public comments to be issued

Regulation

- Commercial and co-operative banks to retain profits and not make any dividend pay-out from the profits pertaining to financial year 2019-20
- Transparent criteria as per a matrix of parameters for declaration of dividends by different categories of NBFCs to be put in place; draft circular containing the proposed criteria and parameters will be released soon for public comments
- The current regulatory regime for the NBFC sector, built on the principle of proportionality to be reviewed. The central bank advised that a scale-based regulatory approach linked to the systemic risk contribution of NBFCs could be the way forward. A discussion paper on this subject will be issued before January 15, 2021 for public comments.

Supervision

- Measures including introduction of Risk based Internal Audit (RBIA) in large UCBs and NBFCs and harmonization of guidelines on appointment of Statutory Auditors for commercial banks, UCBs and NBFCs were announced towards strengthening Audit Systems of Supervised Entities (SEs)

Digital Payments Security

- Reserve Bank of India (Digital Payment Security Controls) Directions for the regulated entities have been proposed and will contain requirements for robust governance, implementation and monitoring of certain minimum standards on common security controls for different payment channels; draft directions to be issued shortly for public comments

External Trade Facilitation

- Additional powers have been delegated to Authorised Dealer (AD) banks to
  - Regularize cases of direct dispatch of shipping documents irrespective of the value of shipment
  - Write off unrealized export bills without limits in specified circumstances
  - Allow set-off of export receivables against import payables with overseas group/associate companies under certain conditions
  - Consider refund of export proceeds without insisting on import of goods which are perishable in nature subject to conditions

Other measures

- RTGS system will soon be made 24x7; limits for contactless card transactions and e-mandates for recurring transactions through cards (and UPI) increased from ₹2,000 to ₹5,000 from January 1, 2021
- Comprehensive framework to redress grievances (comprising enhanced disclosures, intensive review) to be put in place
- Centres for Financial Literacy outreach to be expanded to ensure financial literacy and deepen financial inclusion

Source: *RBI's Monetary Policy Statement, December 4, 2020, FICCI Research*

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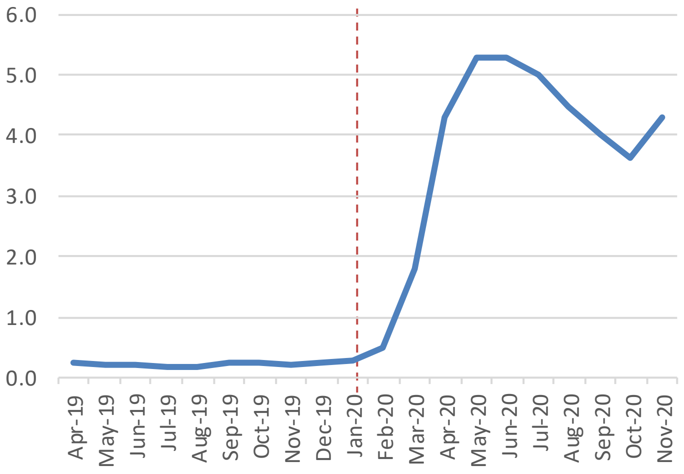
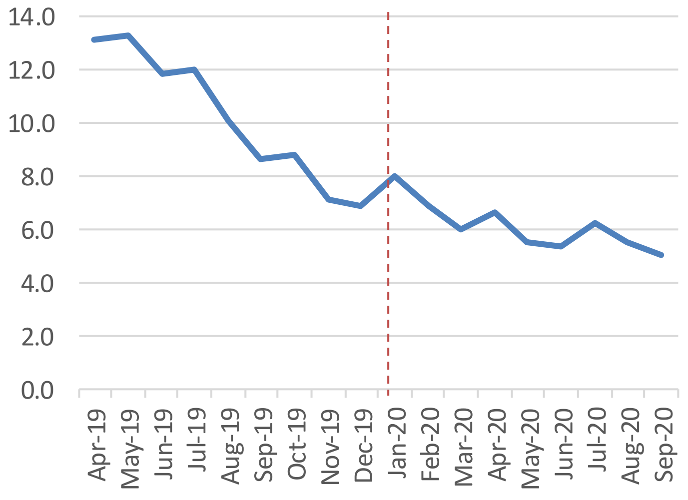
Low Credit off take remains a key concern

Reverse Repo :Average Daily Turnover: USD Trillion



Non-food Credit Growth (% Y-o-Y)



FICCI's Comments

It is heartening to see RBI confirming that it will maintain an accommodative stance till the time necessary for stabilizing growth on a firm footing. While the inflation trajectory has moved up, re-energizing growth should get all the attention at this juncture. There has been a substantial upgrade to the overall growth forecast for the second half of the current fiscal. This is encouraging but given the stress the economy had faced on account of covid-19, we anticipate that policy support, both from the RBI and the government, will be required well into the next year.

Allowing banks to tap into the TLTRO funds for extending credit to other stressed sectors in line with ECLGS 2.0 is a positive move and FICCI welcomes the same.

Amongst the other regulatory announcements, the announcement to review the regulatory regime for NBFCs basing it on size, scale and risk profile is a notable development. FICCI NBFC Committee has been engaging with the central bank on this subject and we look forward to the draft circular that will be put out by RBI for public comments. Likewise, announcements pertaining to strengthening of the credit derivatives market and the corporate bond market are welcome and FICCI will offer its feedback on the revised guidelines once issued.

Digital payments is another area that came in focus in today's policy. RBI has indicated that it will promote common minimum standards of security controls in the area of digital payments. This will improve consumer confidence. Additionally, the decision to allow upward revision in the limit from Rs 2000/- to Rs 5000/- for contactless card transactions and e-mandates for recurring transaction through cards and UPI would enhance customer convenience and FICCI Fintech Committee has been engaging in these areas with the regulator.

***Source:** RBI's Monetary Policy Statement, December 4, 2020, FICCI Research*