Fact Sheet: Monetary Policy
February 2021

RBI leaves repo rate unchanged, pegs GDP growth at 10.5% in 2021-22

- *The Monetary Policy Committee (MPC) unanimously voted to leave the repo rate unchanged at 4.0 percent in the monetary policy resolution announced on February 5, 2021*

- *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*

- *MPC 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	February 2021
Repo rate	5.15%	4.40%	4.40%	4.00%	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%	3.35%
MSF	5.40%	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%	4.25%
CRR	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00% (3.50% March 27, 2021)
SLR	18.25%	18.25%	18.25%	18.00%	18.0%	18.0%	18.0%	18.0%
Bank rate	5.40%	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%	4.25%

Reserve Bank of India's Growth Guidance

RBI forecast GDP growth at 10.5% in 2021-22

GDP growth is projected at 26.2% to 8.3% in H1 2021-22 and 6.0% in Q3 2021-22

Signs of recovery, as suggested by several high frequency indicators, have strengthened further since December 2020 and have been broad based. Expanding list of normalising sectors together with improvement in capacity utilization rate of manufacturing sector (to 63.3% in Q2 2020-21 from 47.3% in Q1 2020-21) is encouraging. Moreover, revival in consumer confidence and upbeat business sentiment are indicative of renewed buoyancy in the economy.

Rural demand is likely to remain resilient on good prospects of agriculture. Urban demand and demand for contact-intensive services is expected to strengthen with the substantial fall in COVID-19 cases and the spread of vaccination. The ongoing vaccination drive is expected to provide an impetus for the restoration of contact intensive sectors apart from providing a leading edge to the Indian pharma industry in the global market. Investment oriented fiscal stimulus under the Atma Nirbhar Bharat package 2.0 and 3.0 has now started to hold ground and is improving the spending momentum while also accelerating quality public investments in the economy. The projected increase in capital expenditure augurs well for capacity creation and for crowding in private investment, thereby facilitating the Indian economy to move towards its potential growth over the medium term.

Reserve Bank of India's Inflation Guidance

The MPC's outlook on inflation witnessed some moderation in the short term; inflation is now projected at 5.2% for Q4 2020-21 vis-à-vis 5.8% forecasted earlier (December 2020 estimates). Inflation is expected to be in the range of 5.2% and 5.0% in H1 2021-2022 and 4.3% in Q3: 2021-22, with risks broadly balanced.

Favourable base effects, higher fresh arrivals of vegetables along with active supply side interventions has resulted in easing of prices pressures in Q3 2020-21. While vegetable prices are likely to remain soft, certain food items are expected to see persistent pressures, going forward. On the contrary, rising international crude oil prices as well as sharp increase in industrial raw material prices are building cost pressures, thereby adding risks to the inflation outlook.

Source: *RBI's Monetary Policy Statement, February 5, 2021*

Regulatory & Developmental Announcements

Liquidity Measures and Financial Markets

TLTRO on Tap Scheme – Inclusion of NBFCs

- Funds from banks under the TLTRO on Tap scheme to be provided to NBFCs for incremental lending to the specified stressed sectors
- NBFCs are well recognized conduits for reaching out last mile credit and act as a force multiplier in expanding credit to various sectors

Restoration of CRR in two phases beginning March 2021

- The MPC has decided to gradually restore the CRR in two phases in a nondisruptive manner to 3.5% effective from March 27, 2021 and 4.0% effective from May 22, 2021

Marginal Standing Facility (MSF) - Extension of Relaxation

- The facility for banks to avail additional one percent funds of net demand and time liabilities (NDTL) which was available up to March 31, 2021 has been further extended by another six months, i.e. up to September 30, 2021
- This dispensation provides increased access to funds to the extent of Rs. 1.53 lakh crore and will provide comfort to banks on their liquidity requirements

Regulation and Supervision

SLR Holdings in Held to Maturity (HTM) category

- Dispensation of enhanced HTM of 22% has been extended up to March 31, 2023 to include securities acquired between April 1, 2021 and March 31, 2022
- The move will provide certainty to the market participants in the context of the borrowing programme of the centre and states for 2021-22
- The HTM limits would be restored from 22% to 19.5% in a phased manner starting from the quarter ending June 30, 2023

Credit to MSME Entrepreneurs

- Scheduled Commercial Banks will be allowed to deduct credit disbursed to 'New MSME borrowers' from their net demand and time liabilities (NDTL) for calculation of CRR
- For the purpose of this exemption, 'New MSME borrowers' would be those who have not availed any credit facilities from the banking system as on January 1, 2021
- Exemption will be available for exposures up to Rs. 25 lakh per borrower for credit extended up to the fortnight ending October 1, 2021

Capital Conservation Buffer and Net Stable Funding Ratio

- Implementation of last tranche of the Capital Conservation Buffer (CCB) of 0.625% and the implementation of Net Stable Funding Ratio (NSFR) have been deferred by another six months from April 1 to October 1, 2021
- This will enable banks to continue providing necessary support to the process of recovery

Review of the Regulatory Framework for Microfinance

- RBI will come out with a consultative document harmonising the regulatory frameworks applicable to various regulated lenders in the microfinance space (NBFC-Micro Finance Institutions, Scheduled Commercial Banks, Small Finance Banks and NBFC–Investment and Credit Companies)

Expert Committee on Primary (Urban) Co-operative Banks

- An Expert Committee (EC) will be constituted to provide a medium-term road map for strengthening the Urban Co-operative Banking sector leveraging on the legislative amendments. Constitution of the EC and its terms of reference will be announced shortly

Source: *RBI's Monetary Policy Statement, February 5, 2021, FICCI Research*

Remittances to IFSCs under the Liberalized Remittance Scheme

- Resident individuals permitted to make remittances to IFSCs for investment in securities issued by non-resident entities in IFSCs
- For this specific purpose, resident individuals would be allowed to open a non-interest bearing Foreign Currency Account (FCA) in IFSCs

Deepening Financial Markets

Allowing Retail Investors to Open Gilt Accounts with RBI

- Retail investors to be provided with online access to the government securities market – both primary and secondary – directly through the Reserve Bank ('Retail Direct'); this will broaden the investor base and provide retail investors with enhanced access to participate in the government securities market
- This is a major structural reform placing India among select few countries which have similar facilities
- This measure together with HTM relaxation, will facilitate smooth completion of the Government borrowing programme in 2021- 22

Foreign Portfolio Investors (FPIs) Investment in Defaulted Bonds

- FPI investment in defaulted corporate bonds will be exempted from the short-term limit and the minimum residual maturity requirement under the Medium-Term Framework

Payment and Settlement System

- With enhanced penetration and efficiency of digital payments, major payment system operators would be required to facilitate setting-up of a centralised industrywide 24x7 helpline for addressing customer queries
- The resilience of the of the digital payments ecosystem to operational risks needs to be constantly upgraded; RBI shall issue guidelines on outsourcing of services by payment system operators (PSOs) and participants of authorised payment system

Consumer Protection

- Financial consumer protection has gained significant policy priority across jurisdictions. In line with the global initiatives on consumer protection, RBI has taken various initiatives to strengthen Grievance Redress Mechanism of regulated entities. As an alternate dispute resolution mechanism, three Ombudsman schemes are in operation from 22 ombudsman offices of RBI located across the country. To make the alternate dispute redress mechanism simpler and more responsive The Reserve Bank announced integration of the three Ombudsman schemes and adoption of the 'One Nation One Ombudsman' approach for grievance redressal.

Source: *RBI's Monetary Policy Statement, February 5, 2021, FICCI Research*

Transmission from Repo Rate to Banks' Deposit and Lending Rates (bps)

		Term deposit Rates		Lending Rates		
Period	**Repo Rate**	**Median Term Deposit Rate**	**WADTDR**	**1 Year Median MCLR**	**WALR - Outstanding Rupee Loans**	**WALR - Fresh Rupee Loans**
Mar20-Dec 20*	-115	-146	-81	-95	-67	-94
Feb-19-Dec 20*	-250	-210	-127	-145	-83	-165

Source: *Economic Survey 2020-21*
WALR: Weighted Average Lending Rate. WADTDR: Weighted Average Domestic Term Deposit Rate; MCLR: Marginal Cost of Funds based Lending Rate.
** Latest data on WALR and WADTR pertain to November 2020.*

Transmission across bank groups during easing cycles (bps)						
	February 2019 to November 2020			March 2020 to November 2020		
	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans	WADTDR	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans	WADTDR
Public Sector Banks	-94	-151	-108	-69	-68	-71
Private Sector Banks	-59	-176	-149	-59	-134	-94
SCBs#	-83	-165	-127	-67	-94	-81

Source: *Economic Survey 2020-21*
#: Include public sector, private sector and foreign banks.

Across bank groups, Private Sector Banks exhibited greater transmission in terms on fresh loans, however Public Sector Banks exhibited greater transmission on outstanding loans for the entire easing cycle. Private Sector Banks also reduced deposit rates (measured by WADTDR) more than Public Sector Banks.

FICCI's Comments

The direction of the policy statement announced by the RBI is positive. FICCI feels reassured with the RBI's decision on continuing with the accommodative stance to accelerate economic growth. Economic recovery is strengthening, and the guidance provided by the Central Bank reflects its commitment towards supporting growth.

FICCI is encouraged to note the support offered by the Reserve Bank of India through the broad mix of regulatory measures today. The assurance and the clear communication by the Governor with regard to liquidity management and the government borrowing programme infuses optimism. The Central Bank is seen using all available policy tools to keep the liquidity at optimum levels. While CRR rates have been elbowed towards gradual normalization, the MSF relaxation and enhanced SLR holdings in HTM category have been extended.

We see that both the Government and the Central Bank are moving in tandem - which is the need of the hour. The innovative measures and reformist approach to meet the borrowings programme of the government is indeed laudable.

We are particularly happy to note the inclusion of NBFCs in the TLTRO on tap scheme for specified stressed sectors. NBFCs have emerged as a major source of organized lending especially for the MSMEs and play a vital role. However, we have noted that Banks continue to favor high rated NBFCs and this distortion needs to be corrected to ensure a broad-based outreach.

Also, the incentivization of new credit flow to the micro, small, and medium enterprise (MSME) borrowers is a big positive and indicates the targeted approach towards meeting the needs of the most stressed. MSMEs have been reeling under tremendous pressure and this measure should further nudge the banks to lend to these enterprises.

In addition, allowing of retail investors to open gilt accounts with the Reserve Bank marks a huge structural change and places India amid few selected countries with a similar facility giving this category of investors an opportunity to participate in GILT market directly.