Fact Sheet: Monetary Policy
April 2021

RBI leaves repo rate unchanged, GDP growth estimate retained at 10.5% for 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 April 7, 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*

- *The MPC also decided to continue with the accommodative stance of monetary policy for as long as necessary to sustain growth on a durable basis while ensuring that inflation remains within the RBI's indicative target*

RBI Policy Action Since the Outbreak of the Pandemic

Key rates	March 2020	April 2020	May 2020	August 2020	October 2020	December 2020	February 2021	April 2021
Repo rate	4.40%	4.40%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Reverse repo rate	4.00%	3.75%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
MSF	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
CRR	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.50% - Mar 27	3.50%
SLR	18.25%	18.25%	18.00%	18.0%	18.0%	18.0%	18.0%	18.0%
Bank rate	4.65%	4.65%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Snapshot of RBI's Projections (%YoY)

	Dec-20 MPC			Feb-21 MPC					Apr-21 MPC						
	FY21	Q4 FY21	H1 FY22	FY21	FY22	Q4 FY21	H1 FY22	Q3 FY22	FY22	FY23	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
CPI Inflation	-	5.8	4.6-5.2	5.0	-	5.2	5.0-5.2	4.3	5.1	4.7	5.0	5.2	5.2	4.4	5.1
GDP	-8.0	-	6.5-21.9	-	10.5	-	8.3-26.2	6.0	10.5	6.8	-	22.6	8.3	5.4	6.2

Reserve Bank of India's Growth Guidance

RBI retains GDP growth estimate for 2021-22 at 10.5%

GDP growth is projected at 26.2% in Q1, 8.3% in Q2, 5.4% in Q3 and 6.2% in Q4 of 2021-22

Despite mixed signals emerging from incoming data on several high frequency indicators as well as fresh resurgence of covid-19 infections, signs of activity normalising and recovering remain firm. Current buoyancy in rural demand is expected to be supported by record agricultural production during the year, pointing towards greater resilience of the rural economy. Urban demand, on the other hand, should get a boost from the ongoing vaccination process. Furthermore, fiscal stimulus in the form of higher capital expenditure as announced in the Union Budget 2021-22 along with expanded production linked incentive scheme is likely to extend strong support to investment demand and exports.

However, the recent surge in covid infections has dented consumer confidence and brought to fore considerable amount of uncertainty to the outlook amidst tightening of restrictions by some state governments.

Reserve Bank of India's Inflation Guidance

The MPC's outlook on inflation trajectory has broadly remained in line with expectations; inflation is projected at 5.0% for Q4 2020-21 before firming up once again to 5.2% in Q1 2021-22, 5.2% in Q2 2021-22. Inflation is likely to ease to 4.4% in Q3 2021-22 before rising once again to 5.1% in Q4 2021-22. However, price pressures are anticipated to be within RBI's targeted range.

Bumper food grains production in 2020-21 and reduction of import duties on edible oil imports along with incentives to enhance domestic production are expected to keep price pressures of essential commodities such as cereals, pulses and oils at bay in the coming months. This together with high rabi harvest arrivals will augment overall supply and enable softening of food prices. The food inflation trajectory will critically depend on the temporal and spatial progress of the south-west monsoon in 2021 season.

Source: *RBI's Monetary Policy Statement, April 7, 2021, DBS*

Furthermore, reduction in excise duties, cesses and state level taxes on prices of petroleum products could offer some more respite to consumers. On the contrary, high international commodity prices and increased logistics costs are creating cost push pressures across manufacturing and services segments. In addition, RBI's latest Inflation Expectations Survey has revealed that urban households reported marginal increase in inflation expectations in the one year ahead parameter indicating an upside risk.

Reserve Bank of India's Liquidity Guidance

The RBI reiterated its commitment of ensuring ample liquidity in the system in consonance with the accommodative stance of the MPC. The central bank's endeavour has been to conduct liquidity management operations conducive for promoting orderly market conditions.

- **Variable Rate Reverse Repo (VRRR)**

RBI stated that recommencement of the variable rate reverse repo (VRRR) since January 15, 2021 has been highly successful. Based on positive outcome of the move, the RBI has decided to conduct VRRR auctions of longer maturity as indicated in the Revised Liquidity Management Framework announced on February 06, 2020. While the amount and tenor of these auctions would be on the basis of evolving liquidity and financial conditions, RBI clearly pointed out that the mechanism is a part of liquidity management operations and must not be perceived as liquidity tightening. Conversely, the move would indirectly work towards enhancing liquidity in the system.

- **Secondary market G-sec acquisition Programme (G-SAP 1.0)**

For year 2021-22, a secondary market G-sec acquisition programme or G-SAP 1.0 will be put in place. Starting April 15, 2021, the RBI will commit upfront to a specific amount of open market purchases of government securities with a view to enabling a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions. The first purchase of government securities would be for Rs. 25,000 crores under the G-SAP 1.0.

Additionally, regular operations under the LAF, longer-term repo/reverse repo auctions, forex operations and open market operations including special OMOs will continue to be deployed to ensure financial conditions are supportive for all stakeholders.

Developmental & Regulatory Announcements

Liquidity Measures

TLTRO on Tap Scheme – Extension of Deadline

- TLTRO on Tap Scheme announced in October 2020 and which was available until March 31, 2021 has been extended by a period of six months, i.e., till September 30, 2021

Liquidity Facility for All India Financial Institutions (AIFIs)

- Fresh support of Rs. 50,000 crore to be extended to the AIFIs for new lending in 2021-22
- Of this, NABARD will be provided a special liquidity facility (SLF) of Rs. 25,000 crore for a period of one year to support agriculture and allied activities, the rural non-farm sector and non-banking financial companies-microfinance institutions
- SLF of Rs. 10,000 crore will be extended to NHB for one year to support the housing sector
- SIDBI will be sanctioned Rs. 15,000 crore under this facility for a period of upto one year to meet the funding requirements of MSMEs
- All these three facilities will be available at the prevailing policy repo rate

Regulation and Supervision

Enhancement of limit of maximum balance per customer at end of the day from Rs. 1 lakh to Rs. 2 lakh for Payments Banks

- Based on a review of performance of payments banks and with a view to encourage their efforts for financial inclusion and to expand their ability to cater to the needs of their customers, including MSMEs, small traders and merchant, the limit of maximum balance at end of the day has been enhanced
- A circular in this regard shall be issued separately

***Source:** RBI's Monetary Policy Statement, April 7, 2021, FICCI Research*

<u>Asset Reconstruction Companies (ARCs) – Constitution of a Committee</u>

- A committee to be constituted to undertake a comprehensive review of the working of ARCs in the financial sector ecosystem
- It will be tasked with recommending suitable measures for enabling such entities to meet the growing requirements of the financial sector. Details and terms of reference to be announced separately

<u>Permitting banks to on-lend through NBFCs</u>

- To ensure continued availability of credit and to aid faster economic recovery, Priority Sector Lending (PSL) classification for lending by banks to NBFCs for 'on-lending' has been extended for six months, i.e., up to September 30, 2021
- The sectors which would benefit from this move include Agriculture, MSME and Housing

<u>Priority Sector Lending (PSL) guidelines- Enhancement of Loan limit against eNWR/NWR</u>

- Loan limit to individual has been enhanced from Rs. 50 lakh to Rs. 75 lakh per borrower against the pledge/hypothecation of agricultural produce backed by NWRs/(e-NWRs) issued by warehouses registered and regulated by Warehousing Development and Regulatory Authority
- The Priority Sector loan limit backed by other Warehouse Receipts will continue to be Rs. 50 lakh per borrower

Debt Management

<u>Review of Way and Means Advances (WMA) limits for the State Governments/UTs</u>

- RBI accepted both recommendations (as listed below) of the Advisory Committee constituted by the Reserve Bank in August 2019 to review the Ways and Means Advances (WMA) limits for State Governments/UTs and examine other related issues
  - The Committee has recommended an overall revised limit of Rs. 47,010 crore for all states, as against the current limit of Rs. 32,225 crore (fixed in February 2016), representing an increase of about 46%
  - Furthermore, it suggested continuation of the enhanced interim WMA limit of Rs. 51,560 crore (60 per cent increase in the current limits allowed by the Reserve Bank during the last fiscal to help states/UTs to tide over the difficulties faced by them during the pandemic) for a further period of six months i.e., from April 1, 2021 up to September 30, 2021

Financial Inclusion

<u>Financial Inclusion Index</u>

- The Reserve Bank will construct and periodically publish a "Financial Inclusion Index" (FI Index) to measure the extent of financial inclusion in the country
- The FI Index would be based on multiple parameters and shall reflect the broadening and deepening of financial inclusion in the country; the index will be published annually in July

Payments Systems

<u>Centralised Payment Systems (CPS), viz- RTGS and NEFT – Membership for entities other than banks</u>

- The RBI has proposed to enable, in a phased manner, payment system operators, regulated by the Reserve Bank, to take direct membership in CPSs to encourage participation of non-banks across payment systems
- This facility is expected to minimize settlement risk in the financial system and enhance the reach of digital financial services to all user segments
- These entities will, however, not be eligible for any liquidity facility from the Reserve Bank to facilitate settlement of their transactions in these CPSs

<u>Interoperability of Prepaid Payment Instruments (PPIs), and Increase in account limit to ₹ 2 lakh</u>

- Interoperability for full-KYC PPIs and for all acceptance infrastructure has been made mandatory to promote optimal utilization of payment instruments given the constraint of scarce acceptance infrastructure
- To incentivize the migration of PPIs to full-KYC, the limit of outstanding balance in such PPIs has been increased from the current level of Rs. 1 lakh to Rs. 2 lakh

***Source:** RBI's Monetary Policy Statement, April 7, 2021, FICCI Research*

Fact Sheet: Monetary Policy April 2021

Permitting Cash Withdrawal from Full-KYC PPIs issued by Non-banks

- Subject to a limit, facility of cash withdrawal has been allowed for full-KYC PPIs of non-bank PPI issuers to boost confidence of holders of such PPIs
- The measure, in conjunction with the mandate for interoperability, will give boost to migration to full-KYC PPIs and would also complement the acceptance infrastructure in Tier III to VI centres

External Commercial Borrowings

Relaxation in the period of parking of External Commercial Borrowing (ECB) proceeds in term deposits

- Given the difficulty faced by borrowers in utilizing already drawn down ECBs due to Covid-19 pandemic induced lockdown and restrictions, the RBI has relaxed the stipulation that allowed ECB borrowers to place ECB proceeds in term deposits with AD Category-I banks in India for a maximum period of 12 months as a one-time measure
- Accordingly, unutilized ECB proceeds drawn down on or before March 1, 2020 can be parked in term deposits with AD Category-I banks in India prospectively up to March 1, 2022

Liquidity Measures since February 6, 2020 (As on March 31, 2021)

Measures	Announced Amount (Rs. Crore)
LTRO	2,00,000
Variable rate repo	2,25,000
SLF for PDs	7,200
CRR cut	1,37,000
MSF (dip by 1% in SLR)	1,37,000
TLTRO	1,00,000
TLTRO (2.0)	50,000
Net OMO purchases	1,50,000
Special liquidity facility for mutual funds	50,000
Refinance to NABARD, SIDBI, NHB and EXIM Bank	75,000
Special liquidity scheme for NBFCs	30,000
56-day term repo	1,00,000
On Tap TLTRO	1,00,000
Total	**13,61,200**
As proportion of 2019-20 GDP (%)	**6.7**
As proportion of 2020-21 GDP (%)	**6.9**

Transmission from the Repo Rate to Banks' Deposit and Lending Rates (Basis points)

	Repo Rate	Term Deposit Rates		Lending Rates		
		Median Term Deposit Rate	WADTDR	1 - Year Median MCLR	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans
February - September 2019 (Pre-external benchmark)	-110	-9	-7	-30	2	-40
October 2019 - March 2021* (Post-external benchmark)	-140	-175	-145	-120	-100	-138
March 2020 - March 2021*	115	-144	-106	-95	-82	-107
February 2019 - March 2021*	-250	-205	-152	-150	-98	-178
October 2020 - March 2021*	0	-6	-28	-13	-30	-10

FICCI's Comments

The status quo with regard to the repo rate was anticipated given the inflation concern. However, the bias indicated by the Central Bank towards maintaining an accommodative stance is reassuring. The fresh surge in covid infections is worrying and the imposition of local lockdowns can undermine the recovery prospects over the near term. At this juncture, it is critical to ensure that the gains made over the past few months are not undone.

FICCI is happy to note Reserve Bank of India's commitment towards maintaining conducive liquidity situation over a longer horizon amidst continued uncertainty. The extension of schemes like on-tap TLTRO for specific sectors and bank lending to NBFCs for on-lending to agriculture, MSME, housing sectors as priority sector lending; the additional refinancing facility provided for SIDBI, NHB, & NABARD; and the relaxation in the period of parking of External Commercial Borrowing (ECB) proceeds in term deposits are all positive steps.

Also, the Central Bank's announcement to initiate the secondary market G-Sec acquisition program (G-SAP 1.0) from the first quarter of the current fiscal year will ensure financial stability especially amidst the recent volatility witnessed in the yield rates. This is also a positive signal towards meeting the large fiscal borrowing programme of the government.

***Source:** RBI's Monetary Policy Statement, April 7, 2021, Monetary Policy Report, April 2021, FICCI Research*

Lastly, it is also encouraging to note that furthering financial inclusion remains a top priority for both the Government and the Central Bank. The enhancement of limit of maximum balance in accounts of Payments Banks to Rs 2 Lakh per individual and the extension of Centralised Payment Systems (CPS) – RTGS and NEFT – membership to non-bank payment system operators like Prepaid Payment Instrument(PPI) issuers, card networks, white label ATM operators and Trade Receivables Discounting System (TReDS) platforms are right steps in the Central Bank's endeavour to extend reachability of formal financing to those at the bottom of the pyramid.