

RBI leaves repo rate unchanged, GDP growth estimate revised down to 9.5% 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 June 4, 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

Key rates	May 2020	August 2020	October 2020	December 2020	February 2021	April 2021	June 2021
Repo rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Reverse repo rate	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
MSF	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
CRR	3.00%	3.00%	3.00%	3.00%	3.50% - Mar 27	3.50%	4.00% - May 22
SLR	18.00%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Bank rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Snapshot of RBI's Projections (%YoY)

	Apr-21 MPC						Jun-21 MPC				
	FY22	FY23	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	FY22	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
CPI Inflation	5.1	4.7	5.2	5.2	4.4	5.1	5.1	5.2	5.4	4.7	5.3
GDP	10.5	6.8	22.6	8.3	5.4	6.2	9.5	18.5	7.9	7.2	6.6

Reserve Bank of India's Growth Guidance

RBI downgrades GDP growth estimate for 2021-22 to 9.5%

GDP growth projected at 18.5% in Q1, 7.9% in Q2, 7.2% in Q3 and 6.6% in Q4 of 2021-22

The rapid spread of coronavirus infections in the second wave, which was also associated with higher rates of morbidity and mortality, remains a major downside risk to growth outlook. Increased levels of infections being reported in the rural areas this time has enhanced the risk factor as far as rural growth is concerned. Moreover, urban demand has taken a beating. Sequential moderation in several high frequency indicators- freight traffic, e-way bills, electricity consumption and toll collections is also seen.

However, with restrictions on mobility being localized, the impact on growth is expected to be much lesser than the nationwide lockdown imposed last time. Also, greater adaptation to pandemic working conditions is likely to cushion the hit on economic activity. Furthermore, stronger global recovery, accommodative domestic monetary and financial conditions and increased pace of vaccinations are likely to expedite return to normalcy.

Reserve Bank of India's Inflation Guidance

The MPC's outlook on inflation trajectory is within the targeted band of 4% (+/- 2%); inflation is projected at 5.2% in Q1 2021-22, 5.4% in Q2 2021-22. Thereafter, inflation is likely to ease to 4.7% in Q3 2021-22 before rising once again to 5.3% in Q4 2021-22. The RBI's inflation forecast for the entire fiscal 2021-22 remained unchanged at 5.1% from the April 2021 review.

Rising trajectory of international commodity prices (especially crude oil) along with increased logistics costs pose significant upside risks to inflation forecast. While central and state cesses and duties will require some coordinated adjustments to contain cost push pressures a rising from increased fuel costs, supply side measures need to be boosted to ease pressure off food items.

Source: RBI's Monetary Policy Statement, June 4, 2021

Moreover, while lower consumer sentiments are likely to keep the core inflationary pressures at bay, declining infection rates together with gradual lifting of localised restrictions could mitigate supply chain disruptions. This in turn would ultimately ease cost push pressures. Furthermore, projection of normal monsoon and availability of comfortable buffer stocks will also help in keeping food prices under check, going forward.

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 create conducive financial conditions to ensure that a sound and efficient financial sector flourishes while preserving financial stability.

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

In the April 2021 policy, the RBI announced secondary market G-sec acquisition programme or G-SAP 1.0 and has already held two auctions worth Rs. 60,000 crore. In the June 2021 policy, the RBI has decided to undertake another operation under G-SAP 1.0 for purchase of G-Secs of Rs. 40,000 crore. This will be conducted on June 17, 2021. Of this, Rs. 10,000 crore would constitute purchase of state development loans (SDLs).

Furthermore, the RBI has decided to undertake G-SAP 2.0 in Q2 2021-22 and conduct secondary market purchase operations of Rs. 1.20 lakh crore to support the market

Developmental & Regulatory Announcements

Liquidity Measures

On-tap Liquidity Window for Contact-intensive Sectors

- A separate liquidity window of Rs. 15,000 crores is being opened till March 31, 2022 with tenors of up to three years at the repo rate
- This will help in mitigating the adverse impact of the second wave of the pandemic on certain contact-intensive sectors including hotels and restaurants; tourism – travel agents, tour operators and adventure/heritage facilities; aviation ancillary services – ground handling and supply chain; and other services that include private bus operators, car repair services, rent-a-car service providers, event/conference organizers, spa clinics, and beauty parlours/salons
- In return for fresh lending, banks have been allowed to park their surplus liquidity up to the size of the loan book created under this scheme with the Reserve Bank at a rate 40 bps higher than the reverse repo rate

Special Liquidity Facility to SIDBI

- Special liquidity facility of Rs. 16,000 crore has been extended to SIDBI for on-lending/refinancing through novel models and structures to support funding requirements of MSMEs, particularly smaller MSMEs and other businesses including those in credit deficient and aspirational districts
- This facility will be available at the prevailing policy repo rate for a period of up to one year, which may be further extended depending on its usage

Regulation and Supervision

Enhancement of the Exposure Thresholds under Resolution Framework 2.0

- Coverage of borrowers under the Resolution Framework 2.0 scheme has been enhanced; this will enable a larger set of borrowers to avail the benefits
- Maximum aggregate exposure threshold has been increased from Rs. 25 crore to Rs. 50 crore for MSMEs, non-MSME small businesses and loans to individuals for business purposes

Source: RBI's Monetary Policy Statement, June 4, 2021

Financial Markets

Placement of Margins for Government Securities Transactions on behalf of FPIs

- Authorized Dealer banks have been permitted to place margins on behalf of their FPI clients for their transactions in Government securities (including State Development Loans and Treasury Bills), within the credit risk management framework of banks
- This will ease operational constraints faced by FPIs and promote ease of doing business

Facilitating Flexibility in Liquidity Management by issuers of Certificates of Deposit

- Regional Rural Banks (RRBs) have been permitted to issue Certificates of Deposit (CDs) to provide greater flexibility to them in raising short term funds
- Furthermore, all issuers of CDs will be permitted to buy back their CDs before maturity, subject to certain conditions
- These steps will facilitate greater flexibility in liquidity management

Payments Systems

Availability of National Automated Clearing House (NACH) on all days of the week

- To leverage 24x7 availability of RTGS, the RBI proposed to make National Automated Clearing House (NACH)- a bulk payment system operated by the NPCI that facilitates one-to-many credit transfers- available on all days of the week effective from August 1, 2021
- The service is currently available only bank working days
- This move will enhance customer convenience

FICCI's Comments

The Central Bank's consistency and approach towards managing the current challenges both economic and those on health front is laudable. The latter was clearly reflected in the announcement made earlier last month. This time around we are happy to note the emphasis on relieving the stress faced by MSMEs. The second wave has had a debilitating impact and in this hour of need all levers must be pulled to support our MSMEs. We also welcome the accommodative stance of the Bank.

Further, the support given to the contact-based services like hotels/restaurants/tourism/aviation ancillary services/spas/parlours through the Rs 15,000 crore through a separate liquidity window should provide some relief to the sector.

The additional liquidity facility extended to SIDBI, expanded coverage under Resolution Framework 2.0 to borrowers upto Rs 50 crores and the allowance to Regional Rural Banks to issue CDs are significant steps for micro and small enterprises. We appreciate the Reserve Bank of India's constant endeavour to ease the conditions for these severely hit enterprises.

While this signaling is critical and timely, effective liquidity transmission calls for a proactive approach from the banks, since banks are the key intermediaries for implementing many of the announcements made by RBI. In this time of crisis, FICCI would urge members of the banking fraternity to double up their efforts and support the corporate sector including the MSMEs across manufacturing and services leveraging all policies announced by the government and RBI in a swift manner so that the intended benefits reach the targeted groups quickly.

Source: RBI's Monetary Policy Statement, June 4, 2021