5 February 2021

Key Highlights – RBI Policy Measures

RBI's Stance → **Accommodative**

Key Highlights

- **GDP Growth** for FY22 at **10.5%**. Growth Outlook has improved significantly.
- **CPI** to remain below **the RBI upper tolerance level of 6.0%**
- **CRR** to be **rolled back** in a phased manner.

The Monetary Policy Committee also decided to **continue with the accommodative stance as long as necessary** to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Further it decided to **keep the policy rates unchanged**, although at the same time it **gave a roadmap for the Cash Reserve Ratio to be rolled back to the pre-covid levels of 4.0%.**

Policy Rates / Reserve Ratio	Current
Repo Rate	4.00%
Reverse Repo Rate	3.35%
MSF	4.25%
Bank rate	4.25%
CRR	3.00%
SLR	18.00%

Growth Outlook

- **Outlook on Growth has improved significantly**. 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.
- High frequency indicators suggest that **list of normalising sectors is expanding**. Manufacturing capacity utilisation has improved to 63.3 % in the Q2 of 2021 from 47.3 % in Q1 2021
- **Consumer confidence is reviving** and business expectations of manufacturing, services and infrastructure remain upbeat.
- **Movement of goods & people** and domestic trading activity are growing at **robust** pace.
- The fiscal stimulus under **AtmaNirbhar 2.0 and 3.0 schemes of government will likely accelerate public investment**, although private investment remains sluggish amidst still low capacity utilisation.
- The **Union Budget 2021-22**, with its thrust on sectors such as **health and well-being, infrastructure, innovation and research**, among others, should help accelerate the growth momentum.
- Taking these factors into consideration, real **GDP growth** is projected at **10.5% in 2021-22** – in the range of 26.2 to 8.3% in H1 and 6.0% in Q3

Inflation Outlook

- **CPI inflation moved below 6% in Dec 20** for the first time in post lockdown period.
- Sharp correction in **food prices has improved** the food price outlook, but some pressures persist, and **core inflation remains elevated.**
- **Pump prices of petrol** and diesel have reached **historical highs**. However, the crude oil futures curve has become downward sloping since December 2020.
- It's expected that **vegetable prices will remain soft** in the near term while pressure may continue in some key food items.
- Taking these factors into consideration the **Consumer Price Inflation forecast** for Q4FY21 is at 5.2% vs 5.8% projected earlier. For H1FY22 it's forecasted to be between 5.2% - 5.0% well within RBI limit of 2-6 %. Its projected to be 4.3 % in Q3: 2021-22, with risks broadly balanced.

Measures to Combat the Crisis

RBI Announced a host of additional measures to combat the impact of coronavirus:

- **TLTRO extended to NBFCs** for further lending to specific sectors.
- **Retail investors** to now have direct access to gilt market.
- **Higher HTM limits** extended up to 2023.
- Last tranche of **capital conservation buffer** of 0.625 % deferred to October 2021 from April 1, 2021.
- **MSF relaxation extended for 6 months.**

Outlook

Since the beginning of the COVID crisis the RBI has said and implemented **"whatever it takes"** to boost economic growth. As stated in the last policy release, it reiterated that it would continue to remain **"Accommodative" "as long as necessary"**. This coupled with continuous improvement in the economy and benign inflation outlook should support the growth of the economy.

RBI has also guided that the **system liquidity will continue to remain stable** over the year and it will ensure orderly completion of the market borrowing programme in a non-disruptive manner. This should **support both the equity and debt markets going ahead.**

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5 February 2021

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