

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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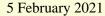
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