09 August 2021

Key Highlights - RBI Policy Measures

RBI's Stance	→	Accommodative

Key Highlights

- **Policy rates, Reserve Ratio and Stance kept unchanged.**
- **Growth target** kept unchanged at **9.5% for FY22**.
- **Inflation** projection was bumped up by 60 bps to **5.7% for FY22**.
- **Marginal Standing Facility (MSF) relaxation** and **On-tap Targeted Long-Term Repo Operations (TLTRO) scheme extended** for 3 months.
- Variable Rate Reverse Repo **(VRRR) amount increased in a phased manner.**
- **2 Auctions** of G-sec acquisition programme **(G-SAP)** 2.0 in August 2021.

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

The RBI for the 7th **consecutive bi – monthly Monetary Policy Committee (MPC) Meeting kept the key policy rates unchanged**, in expected lines. RBI had last revised its policy rate on 22 May, 2020, in an off-policy cycle to perk up demand by cutting the interest rate to a historic low. MPC voted unanimously for keeping the interest rate unchanged. However with respect to the stance though it decided to **continue with its "accommodative" stance "as long as necessary"** to support growth and keep inflation within the target, the decision was not unanimous.

Growth Outlook

- Domestic **economic activity has started normalising** with the ebbing of the second wave of the virus and the phased reopening of the economy. **High-frequency indicators suggest** that (i) consumption (both private and Government), (ii) investment and (iii) external demand **are all on the path of regaining traction**.

- The **RBI projected the Real GDP growth at 9.5% in 2021-22**, in line with what was projected on 4 June 2021. However the individual quarter growth numbers were revised upward for Q1FY22 and downward for the remaining 3 quarters of the current fiscal.

Period	FY2020-21	Q1FY2021-22	Q2FY2021-22	Q3FY2021-22	Q4FY2021-22
Growth Projection	9.5%	21.4%	7.3%	6.3%	6.1%

Inflation Outlook

- Since the start of the pandemic, the MPC has **prioritised revival of growth** to mitigate the impact of the pandemic over inflation.
- The available data point to exogenous and **largely temporary supply shocks driving the inflation process**. The **supply-side drivers could be transitory** while demand-pull pressures remain inert, given the slack in the economy.
- **CPI inflation is projected at 5.7% during 2021-22**, up by 60 bps from 5.1% projected earlier. Medium-term target for consumer price index (CPI) inflation remains at 4% within a band of +/- 2%, while supporting growth.

Period	FY2020-21	Q1FY2021-22 (A)	Q2FY2021-22	Q3FY2021-22	Q4FY2021-22
Inflation Projection	5.7%	5.6%	5.9%	5.3%	5.8%

Key Measures Announced

- RBI **increased the** Variable Rate Reverse Repo **(VRRR) amount** from Rs 2 to 4 lakh cr in phased manner. Though, this is clearly an attempt at calibrating liquidity, it may not materially move the needle as far as overnight rates are concerned.
- The **Marginal Standing Facility (MSF) relaxation** deadline has been extended by an additional 3 months till the end of December 2021.
- The deadline for **On-tap Targeted Long-Term Repo Operations (TLTRO) Scheme has been extended** by an additional 3 months till the end of the current calendar year.
- The RBI to conduct two more auctions of Rs. 25,000 crore each on August 12 and August 26, 2021, under **G-sec acquisition programme (G-SAP) 2.0.**

Summary

On growth, the central bank kept the target for the current fiscal stagnant at 9.5% reflected in increasing exports, lending critical support to aggregate demand. Global commodity prices and episodes of financial market volatility, together with vulnerability to new waves of infections are, however, downside risks to economic activity.

The RBI also **raised its inflation projections significantly** on account of largely temporary supply shocks driving the inflation process.

While the **MPC expectedly stayed on hold**, the bigger move was with regards to **yield management** as the RBI stressed on smooth liquidity management and orderly G-sec borrowings, with a more vocal and defined G-SAP.

With respect to liquidity, the RBI said that **along with G-SAP it will continue to undertake other operations** like open market operations (OMOs) and operation twist (OT), among others, and calibrate them in line with the evolving macroeconomic and financial conditions.

Investing Outlook

Despite no indications of rate hikes domestically in near term we continue to maintain our stance of investing in shorter end of the curve through MF categories like **Low Duration / Floating Rate Funds**.

Good quality **Corporate Fixed Deposits** also appear to be an attractive option for **1-2 years horizon**.

For **longer term investments Short Term Funds / Corporate Bond Funds** continue to be our preferred categories.

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