08 October 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 slashed by 40 bps to **5.3% for FY22**.
- **GSAP program discontinued** for this quarter.
- 14-day variable rate reverse repo **(VRRR) stepped up further.**
- On Tap **Special LTRO for Small Finance Banks (SFBs) deadline extended.**
- **Priority Sector Lending** – permitting banks to on-lend through NBFCs extended.

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 **8th 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

- **Recovery in aggregate demand gathered pace in August-September.** This is reflected in high-frequency indicators – railway freight traffic; port cargo; cement production; electricity demand; e-way bills; GST and toll collections.
- The **RBI projected the Real GDP growth at 9.5% in 2021-22**, in line with what was projected on June and August 2021.

Period	FY2020-21	Q1FY2021-22 (A)	Q2FY2021-22	Q3FY2021-22	Q4FY2021-22	Q1FY2022-23
Growth Projection	9.5%	20.1%	7.9%	6.8%	6.1%	17.2%

Inflation Outlook

- **CPI inflation is projected at 5.3% during 2021-22**, down by 40 bps from 5.7% projected earlier. Medium-term target for consumer price index (CPI) inflation remains at 4% within a band of +/- 2%, while supporting growth.
- The **key driver of the disinflation** has been the **moderation in food inflation** even as fuel inflation edged up and CPI inflation excluding food and fuel inflation (core inflation) remained elevated.
- Inflation trajectory turning more favourable than anticipated; **economic activity slowly picking up.**

Period	FY2020-21	Q1FY2021-22 (A)	Q2FY2021-22	Q3FY2021-22	Q4FY2021-22	Q1FY2022-23
Inflation Projection	5.3%	5.6%	5.1%	4.5%	5.8%	5.2%

Key Measures Announced

- Proposed to introduce framework for **retail digital payment in offline mode** across India
- Proposal to introduce framework for leveraging **geo-tagging tech on all new & existing payment infrastructure**.
- Introduce **internal Ombudsman Scheme** to address grievances of large **NBFC customers**.
- Special 3-year LTRO of ₹10,000 crore for **small finance banks (SFBs)** has been extended till December 31, and made available on-tap.

- The RBI has **enhanced the IMPS** (Immediate Payment Service) transaction limit to Rs. 5 lakh from Rs. 2 lakh
- **Variable Reverse Repo (VRR) auctions will be stepped up fortnightly from Rs. 4 trillion to Rs. 6 trillion**. RBI may complement the 14-day VRR auctions with 28-day VRR auction. Liquidity absorbed in the first week of December under fixed-rate auction to be Rs. 2-3 trillion.
- 'No need for further bond-buying': **RBI stops G-SAP bond buys**, as that need for undertaking further G-SAP operations does not arise. He further added that the RBI will remain in preparedness to conduct G-SAP if and when needed.
- With a view to **increase the credit flow to certain priority sectors of the economy** which contribute significantly to growth and employment, and recognizing the role played by NBFCs in providing credit to these sectors, bank lending to registered NBFCs (other than MFIs) for on lending to Agriculture (investment credit), Micro and Small enterprises and housing (with an increased limit) was permitted to be classified as priority sector lending up to certain limits has been extended.

Summary

As the Indian economy shows signs of emerging from the COVID-19 inflicted ravages, market participants and policymakers are of the view that the **measures taken during the crisis should evolve in sync with the macroeconomic developments to preserve India's financial stability**.

Investing Outlook

With the RBI stance of **taking out excess liquidity from the system** and **possibility of a reverse repo rate hike in the 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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