

10 April 2021

Key Highlights – RBI Policy Measures

RBI's Stance



Accommodative

Key Highlights

- **GDP forecast for FY22 retained at 10.5%** even as it **trimmed the Q1 forecast**.
- **Inflation forecasts have been raised slightly**, amid upside risks on account of **rising commodity prices and logistics costs**.
- Introduction of a planned secondary market **G-sec acquisition programme (GSAP 1.0)** to enable cooling of increased bond yields.

The **National Statistical Office (NSO)** in its update on February 26, 2021 placed the contraction in **real GDP at 8.0% for 2020-21**. Prospects for 2021-22 have strengthened with the progress of the vaccination programme. The recent surge in infections has, however, imparted greater uncertainty to the outlook and needs to be closely watched.

Policy Rates / Reserve Ratio	Current
Repo Rate	4.00%
Reverse Repo Rate	3.35%
MSF	4.25%
Bank rate	4.25%
CRR	3.50%
SLR	18.00%

Against this backdrop, the Monetary Policy Committee also decided to **continue with the accommodative stance as long as necessary** to sustain growth on a durable basis and continue to 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**. This is the 5th consecutive MPC that the rates have not been cut.

Growth Outlook

- ❖ **Global growth** is gradually recovering from the slowdown, but it remains **uneven** across countries
- ❖ **Stronger external demand** should support India's exports and investment demand.
- ❖ The focus of the **Union Budget 2021-22** on investment-led measures with increased allocations for capital expenditure; the **expanded production-linked incentives (PLI) scheme**; and **rising capacity utilisation** (from 63.3% in Q2:2020-21 to 66.6% in Q3:2020-21) will reinforce the process of economic revival.
- ❖ Economic activity is normalising in spite of the surge in infections. **Rural demand remains buoyant** and record agriculture production in 2020-21 bodes well for its resilience. **Urban demand has gained traction** and should get a fillip with the ongoing vaccination drive.
- ❖ Taking these factors into consideration, the central bank also retained its **GDP forecast for FY22 at 10.5%** even as it **trimmed the Q1 forecast**.

Period	FY2020-21	Q1FY2021-22	Q2FY2021-22	Q3FY2021-22	Q4FY2021-22
Growth Projection	10.50%	26.20%	8.30%	5.40%	6.20%

Inflation Outlook

- ❖ Headline inflation, after moderating close to the target rate in January 2021, firmed up to **5.0% in February 2021**, primarily due to an adverse base effect.
- ❖ The MPC noted that underlying inflation pressures emanate from **high international commodity prices and logistics costs** and may push up input price pressures across manufacturing and services.
- ❖ The **softening in crude prices** seen in recent weeks, if it sustains, with reduction in levies & taxes could provide some relief can assuage input cost pressures.
- ❖ Going forward, the **food inflation trajectory** will critically depend on the temporal and spatial progress of the south-west monsoon in its 2021 season.
- ❖ On March 31, 2021, the Government retained the **inflation target at 4.0%** with the **lower and upper tolerance levels of 2.0% and 6.0%**, respectively, for the next five years (April 2021-March 2026).
- ❖ Monetary policy over the next five years would aim at **consolidating and building upon the credibility gains** of the first 5 years of flexible inflation targeting.
- ❖ Looking at the above factors, the inflation forecasts now stands as follows:

Period	Q4FY2020-21	H1FY2021-22	Q3FY2021-22	Q4FY2021-22
Inflation Projection	5.00%	5.20%	4.40%	5.10%

Liquidity Guidance

- ❖ Reserve Bank's reiterated its **commitment to ensuring ample system liquidity** in consonance with the accommodative stance of the MPC.
- ❖ In view of the success of **variable rate reverse repo (VRRR)** and given the rising level of surplus liquidity, the RBI has decided to conduct VRRR auctions of **longer maturity**.
- ❖ Announced **G-SAP (Gsec secondary market acquisition program)** – Rs. 1 lakh crore for Q1FY22, with first G-SAP of Rs. 25,000 cr on 15 April 2021.
- ❖ The Reserve Bank will continue to do **whatever it takes to preserve financial stability** and to insulate domestic financial markets from global spill overs and the consequent volatility.
- ❖ RBI also announced a host of additional measures to combat the impact of coronavirus and **extended TLTRO on TAP scheme** by 6 months upto 30 September 2021.

Outlook

The key element in April's statement is the **introduction of a planned secondary market G-sec acquisition programme (GSAP 1.0)**, which will go some way in **cooling the increased bond yields**.

A massive Rs. 1 lakh crore is proposed to be acquired in Q1FY22 itself, which is expected to facilitate the absorption of higher government borrowings at relatively lower costs. Along with OMO (open market operation), GSAP 1.0 is likely to be a potent tool to stabilise bond yields in a volatile market scenario.

All these measures should **support both the equity and debt markets going ahead**.

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