

08 December 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 kept unchanged at 5.3% for FY22.
- This policy the focus was clearly on supporting growth.
- RBI Policy this time being more dovish than expected.
- RBI to re-establish 14-day variable rate reverse repo (VRRR) auction.

Policy Rates / Reserve Ratio	Prior Policy	8 Dec 21	Status
Repo Rate	4.00%	4.00%	↔
Reverse Repo Rate	3.35%	3.35%	↔
MSF	4.25%	4.25%	↔
Bank rate	4.25%	4.25%	↔
CRR	4.00%	4.00%	↔
SLR	18.00%	18.00%	↔

The RBI for the 9<sup>th</sup> 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.

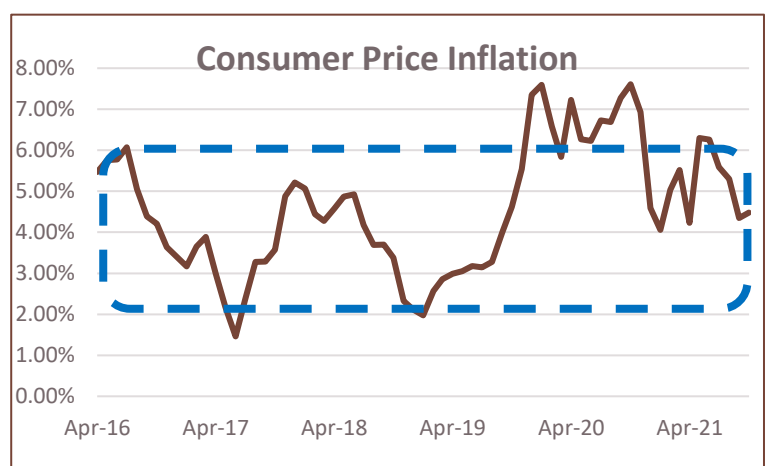
### Growth Outlook

- Incoming information indicates that consumption demand has been improving, with pent-up demand getting reinforced by the festive season.
- While rural demand is exhibiting resilience and farm employment is picking up; urban demand has also shown signs of strengthening, with spending on travel and tourism surging in the last few months.
- Thus the RBI projected the Real GDP growth at 9.5% in 2021-22, in line with what was projected on June, August and October 2021.

Period	FY2020-21	Q1FY2021-22 (A)	Q2FY2021-22 (A)	Q3FY2021-22	Q4FY2021-22	Q1FY2022-23	Q2FY2022-23
Growth Projection	9.5%	20.1%	8.4%	6.6%	6.0%	17.2%	7.8%

### Inflation Outlook

- CPI inflation is projected at 5.3% during 2021-22, in line with the number 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 and the reduction of excise duty and VAT on petrol and diesel which will bring about a durable reduction in inflation by way of direct effects as well as indirect effects operating through fuel and transportation costs.



Source: RBI DBIE

- The inflation trajectory is, therefore, likely to be in line with RBI's earlier projections, however **price pressures may persist in the immediate term.**

Period	FY2020-21	Q1FY2021-22 (A)	Q2FY2021-22(A)	Q3FY2021-22	Q4FY2021-22	Q1FY2022-23	Q2FY2022-23
<b>Inflation Projection</b>	5.3%	5.6%	5.1%	5.1%	5.7%	5.0%	5.0%

### Key Measures Announced

- RBI to **re-establish 14-day variable rate reverse repo (VRRR) auction** as a key liquidity management operation from the current 28-day VRRR.
- Increase 14-day VRRR amount to Rs. 7.5 lakh crore by Dec-end in gradual manner from Rs. 6 lakh crore currently. From Jan 2022, **liquidity absorption will be done through auction route** - Operation Twists (OT) and regular open market operations (OMOs).
- Banks to be given the option to pre-pay outstanding amount of funds availed under the **targeted long term repo operations (TLTRO)**.
- **On-tap COVID-19 and contact intensive line** will continue till 31 Mar 22
- **Infusion of Capital in Overseas Branches and Subsidiaries** of Banks and Retention / Repatriation / Transfer of Profits by these entities will not require prior approval from RBI
- Discussion Paper on Review of **Prudential Norms for Investment Portfolio of Banks**
- Discussion Paper on Charges in Payment Systems - **UPI: Simplification, Deepening and Enhancement of Limits**
- External Commercial Borrowing (ECB)/Trade Credit (TC) – **Transition from LIBOR to Alternative Reference Rate (ARR)**

### Summary

This policy the **focus was clearly on supporting growth** even as fears over inflation flare up on the back of high commodity prices and global changes in interest rate policy are dynamic.

In line with the market expectation, we had in our post policy review note in October stated that there is a “possibility of a reverse repo rate hike in the near term”, nonetheless with evolving COVID-19 situation across the globe and **RBI Policy this time being more dovish than expected** though we do not rule out a possibility of a near term rate hike, we believe it would not be immediate near future.

### Investing Outlook

Investors should expect that interest rates on both deposits rates and lending rates will rise in the coming year, albeit gradually. With the RBI stance of **taking out excess liquidity from the system** we continue to maintain our stance of investing in shorter end of the curve through Mutual fund 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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**Registered office:** 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013, India.