RBI Monetary Policy Statement

August 2021

ASSOCHAM
Celebrating 101 Years

We appreciate the Monetary Policy Committee Members of the Reserve Bank of India (RBI) under the Chairmanship of Shri Shaktikanta Das, Hon'ble Governor, Reserve Bank of India, for an announcement on MPC on 06th August 2021 and keeping the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. The MPC voted with a 5:1 majority to continue with an 'accommodative' stance as long as necessary to support growth. The accommodative stance will be as long as needed to support a struggling economy hit by the COVID-19 pandemic.

The RBI has led the fight against the pandemic from the front and continues to introduce measures to bring back the economy on the growth track. We are pleased to share that today's announcements included some of the key recommendations made by the ASSOCHAM's experts on the RBI Bi-Monthly Monetary Policy Statement for 2021-22. ASSOCHAM members have been supporting an accommodative stance to manage the uncertainties in the ecosystem, with a sharp focus has to be on boosting growth and mitigating downside economic risks.

Outlook for aggregate demand is improving, but underlying conditions are still weak. More needs to be done to restore supply-demand balance in various sectors.

Vaccine manufacturing and administration are steadily rising across the country, yet the need of the hour is not to drop our guard and to remain vigilant against any possibility of 3rd wave.

Continuing the accommodative stance

- The RBI has announced the monetary policy in which it has kept the repo rate unchanged at 4 per cent.
- Reverse repo rate remains at 3.35 per cent, Marginal Standing Facility Rate and Bank Rate at 4.25 per cent.
- The key lending rate at which banks lend short-term rates to banks is unchanged at 4 per cent.
- Economic activity has evolved broadly along expected lines.

Assessment of growth and inflation

- Inflation is expected to be at 5.9 per cent in Q2 of FY22, 5.3 per cent in Q3 of FY22 and 5.8 per cent in Q4 FY22.
- High-frequency indicators for the economy are progressing.
- CPI inflation is projected at 5.7 % during 2021-22. It consists of 5.9% in Q2, 5.3% in Q3 and 5.8% in Q4 of 2021-22, with risks broadly balanced.
- CPI inflation surprised on the upside in May; price momentum, however, was moderate.
- CPI inflation for the first quarter of 2022-23 is projected at 5.1 per cent.
- The projection for India's real Gross Domestic Product (GDP) is maintained at 9.5 per cent for FY22.
- Outlook for aggregate demand is improving, but the underlying conditions are still weak.
- More needs to be done to restore supply-demand balance in no. of sectors.
- High-frequency food price indicators show some moderation in prices of edible oils and pulses in July.
- Govt's decision to dip into cash balances for GST borrowing should assuage market fears of extra borrowing.

Strengthening liquidity measures

Given the nascent and fragile economic recovery, it has now been decided to extend the On Tap TLTRO scheme further by three months

- Intending to increase the focus of liquidity measures on the revival of activity in specific sectors that have both backward and forward linkages and have multiplier effects on growth, the RBI had announced the On Tap TLTRO scheme on October 9, 2020, for five sectors that were available up to March 31, 2021. The scheme has now been further extended by by three months, i.e., till December 31, 2021.
- On March 27, 2020, banks were allowed to avail of funds under the marginal standing facility by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of Net Demand and Time Liabilities (NDTL), i.e., cumulatively up to 3 per cent of NDTL.
- This facility, which was initially available up to June 30, 2020, was later extended in phases up to March 31, 2021, and again for a further period of six months till September 30, 2021. It provided comfort to banks on their liquidity requirements and enabled them to meet their Liquidity Coverage Ratio (LCR) requirements.
- This dispensation provides increased access to funds to the extent of ₹1.62 lakh crore and qualifies as high-quality liquid assets (HQLA) for the LCR. It has now been decided to continue with the MSF relaxation for a further period of three months, i.e., up to December 31, 2021.
- Reserve Bank will conduct an open market purchase of government securities of ₹25,000 crores on August 12, 2021, under the G-sec Acquisition Programme (G-SAP 2.0).

The London Interbank Offered Rate (LIBOR) transition is a significant event that poses challenges for banks and the financial system.

Strengthening regulatory measures

- Authorized dealers are permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) to exporters to finance the purchase, processing, manufacturing or packing of goods before shipment at LIBOR / EURO-LIBOR / EURIBOR related rates of interest. Given the impending discontinuance of LIBOR as a benchmark rate, it has been decided to permit banks to extend export credit using any other widely accepted Alternative Reference Rate in the currency concerned.
- Given that the impending change in reference rate from LIBOR is a "force majeure" event, banks are being advised that change in reference rate from LIBOR / LIBOR-related benchmarks to an Alternative Reference Rate will not be treated as restructuring.
- The resolution plans implemented under the Resolution Framework for COVID-19 related stress announced on August 6, 2020, are required to meet the sector-specific thresholds notified in respect of five financial parameters, four of which are related to the operational performance of the borrowing entity by March 31, 2022.
- Recognizing the adverse impact of the second wave of COVID-19 on the revival of businesses and its difficulty in meeting the operational parameters, it has been decided to defer the target date for meeting the specified thresholds in respect of the above parameters to October 1, 2022.