

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 08th October 2021 and keeping the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis. They also focused on mitigating the impact of COVID-19 on the economy while ensuring that inflation remains within the target going forward.

We are pleased to share that today's announcements included some of the key recommendations made by ASSOCHAM on RBI Bi-Monthly Monetary Policy Statement for 2021-22.



Continuing the accommodative stance

- RBI's MPC has decided unanimously to maintain the status quo and keep repo rates unchanged.
- Consequently, the reverse repo rate also remains unchanged at 3.35 pc.
- The Bank rate also remains the same at 4.25 pc.
- The stance is to remain accommodative as long as necessary to revive and sustain growth on a durable basis. Additionally, the focus would continue to be on mitigating the impact of covid-19 on the economy while ensuring that inflation remains within the target.



Assessment of growth and inflation

- Real GDP growth for Q1:2021-22 at 20.1 per cent exhibited resilience of the economy in the face of the destructive second wave of COVID-19. Almost all components of GDP registered y-o-y growth, despite a sharp loss of momentum due to the second wave.
- 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.
- Rural demand is expected to get impetus from the continued resilience of the agricultural sector and record production of Kharif food grains in 2021-22 as per the first advance estimates.
- The improved level in reservoirs and early announcement of the minimum support prices for rabi crops boost the prospects for rabi production.
- Pick up in import of capital goods and cement production point towards some revival in investment activity.
- Critical support to aggregate demand also came from exports, which remained over US\$ 30 billion for the seventh consecutive month in September 2021, reflecting strong global demand and policy support. This augurs well for meeting the export target of US\$ 400 billion during 2021-22.
- Recovery in the services sector is also gaining traction. Gradual pickup in contact-intensive services, together with a strong performance of technology-driven sectors, are likely to support the momentum.

The ebbing of infections, together with improving consumer confidence, has been supporting private consumption. The pent-up demand and the festival season should further fillip urban demand in the second half of the financial year.

The support to aggregate demand from government consumption is also gathering pace. Together with congenial financial conditions, improvement in government CAPEX could bring about an upturn in the much-awaited virtuous investment cycle.

Headline inflation continues to be significantly influenced by very high inflation in select items such as edible oils, petrol and diesel, LPG and medicines. On the other hand, a very low seasonal build-up in vegetable prices, declining cereal prices, a sharp deflation in gold prices and muted housing inflation have helped contain inflationary pressures.

RBI is watchful of the evolving inflation situation and remains committed to bringing it closer to the target gradually and non-disruptively.

At the current juncture, central banks across the world find themselves at crossroads. Diverging monetary policy stances are not being dictated by country groupings but by country circumstances.

Assessment of growth and inflation



- However, the impact of high input costs on profit margins, potential global financial and commodity markets volatility, and a resurgence in COVID-19 infections impart downside risks to the growth outlook.
- Considering all these factors, the projection for real GDP growth is retained at 9.5 per cent in 2021- 22. This would consist of 7.9 per cent in Q2, 6.8 per cent in Q3, and 6.1 per cent in Q4 2021-22. Real GDP growth for Q1:2022-23 is projected at 7.2 per cent.
- Headline CPI inflation at 5.3 per cent in August registered a moderation for the second consecutive month and a decline of one percentage point from its level in June 2021.
- 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.
- Going forward, several evolving factors provide comfort on the food price front, though its momentum is expected to remain muted in the near term.
- Cereal prices are expected to remain soft due to likely record Kharif foodgrains production and adequate buffer stocks.
- Vegetable prices, a significant source of inflation volatility, have remained contained in the year so far with record production and supply-side measures by the Government.
- Unseasonal rains and adverse weather-related events: if any, in the coming months are, however, upside risks to vegetable prices.
- Supply-side measures by the Government for edible oils and pulses are helping to temper price pressures. However, an uptick in the prices of edible oils has been seen in the recent period.
- Overall, the CPI headline momentum is moderating, which, combined with favourable base effects in the coming months, could bring about a substantial softening in inflation in the near term.
- Considering all these factors, CPI inflation is projected at 5.3 per cent for 2021-22: 5.1 per cent in Q2, 4.5 per cent in Q3; 5.8 per cent in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.2 per cent.

Liquidity and Financial Market Conditions



- Among Emerging Market Economies (EMEs), some are tightening monetary policy, others are undertaking further monetary stimulus, while a few are on a resolute pause.
- The countries that are tightening monetary policy are facing inflation much above their upper tolerance bands and are also registering a strong rebound in growth above pre-pandemic levels, boosted mainly by commodity export earnings and positive spillovers from improvement in macroeconomic conditions in some advanced economies.



Strengthening liquidity measures

The conduct of monetary policy in India will continue to be oriented to our domestic circumstances and assessment. Since the onset of the pandemic, the Reserve Bank has maintained ample surplus liquidity to support a speedy and durable economic recovery.

As the economy shows signs of emerging from the COVID-19 ravages, a near consensus emerging among market participants and policymakers is that the liquidity conditions emanating from the exceptional measures instituted during the crisis would need to evolve in sync with the macroeconomic developments to preserve financial stability. This process has to be gradual, calibrated and non-disruptive while remaining supportive of the economic recovery.

- Countries that are easing monetary policy through non-rate actions are the rare few with low consumer price inflation. Finally, countries on a resolute pause have inflation in the elevated zone but poor growth prospects or nascent recoveries that need nurturing. In India, the MPC has maintained a pause and given time and state-contingent forward guidance from time to time on preserving accommodation.
- The level of surplus liquidity in the banking system increased further during September 2021, with absorption under fixed-rate reverse repo, variable rate reverse repo (VRRR) of 14 days and fine-tuning operations under the liquidity adjustment facility (LAF) averaging ₹9.0 lakh crore per day as against ₹7.0 lakh crore during June to August 2021.
- The surplus liquidity rose even further to a daily average of ₹9.5 lakh crore in October so far (up to October 6). The potential liquidity overhang amounts to more than ₹13.0 lakh crore.
- The Reserve Bank's secondary market G-Sec Acquisition Programme (G-SAP) has successfully addressed market concerns and anchoring yield expectations in the context of the extensive borrowing programme of the Government.
- The total liquidity injected into the system during the first six months of the current financial year through open market operations (OMOs), including G-SAP, was ₹2.37 lakh crore, against injection of ₹3.1 lakh crore over the full financial year 2020-21.
- Given the existing liquidity overhang, the absence of a need for additional borrowing for GST compensation and the expected expansion of liquidity in the system as Government spending increases in line with budget estimates, the need for undertaking further G-SAP operations at this juncture does not arise.
- With the resumption of normal liquidity operations since mid-January 2021, 14- day variable rate reverse repo (VRRR) auctions have been deployed as the main instrument under the liquidity management framework. Market appetite for VRRRs has been enthusiastic. Moreover, the higher remuneration VRRR offers vis-à-vis the fixed-rate reverse repo also renders the former relatively attractive.
- It is proposed to undertake the 14-day VRRR auctions on a fortnightly basis in the following manner: ₹4.0 lakh crore today as already notified; ₹4.5 lakh crore on October 22; ₹5.0 lakh crore on November 3; ₹5.5 lakh crore on November 18; and ₹6.0 lakh crore on December 3. Further, depending upon the evolving liquidity conditions, especially the quantum of capital flows, pace of government expenditure and credit offtake, the RBI may also consider complementing the 14-day VRRR auctions with 28-day VRRR auctions in a similar calibrated fashion.
- Even with all these operations, the liquidity absorbed under the fixed-rate reverse repo would still be around ₹2 to 3 lakh crore in the first week of December 2021.

Additional measures



Ensuring wider availability of payments acceptance (PA) infrastructure throughout the country has been one of the priority areas for financial inclusion. To target areas with deficient PA infrastructure, it is proposed to introduce a framework for leveraging geo-tagging technology for capturing exact location information on all existing and new PA infrastructure

To help States/UTs to manage their cash flows amidst continued uncertainties on account of the pandemic, it has been decided to continue with the interim enhanced WMA limits of ₹51,560 crores for States/UTs for a further period of six months up to March 31, 2022.

- A special three-year long-term repo operation (SLTRO) of ₹10,000 crores at the repo rate was introduced for Small Finance Banks (SFBs) in May 2021.
- Immediate Payment Service (IMPS) offers instant domestic funds transfer facility 24x7 through various channels. Given the importance of the IMPS system and for enhanced consumer convenience, it is proposed to increase the per transaction limit from ₹2 lakh to ₹5 lakh.
- Scheme to test technologies that enable digital payments even in remote places where internet connectivity is either absent or barely available was announced in August 2020. Given the encouraging experience gained from the pilot tests, it is proposed to introduce a framework for retail digital payments in offline mode across the country. This will further expand the reach of digital payments and open up new opportunities for individuals and businesses.
- To target areas with deficient PA infrastructure, it is proposed to introduce a framework for leveraging geo-tagging technology for capturing exact location information on all existing and new PA infrastructure viz., Point of Sale (PoS) terminals, Quick Response (QR) Codes, etc. This would complement the Payment Infrastructure Development Fund (PIDF) framework of the Reserve Bank in ensuring wider geographical deployment of PA infrastructure.
- The Reserve Bank's Regulatory Sandbox (RS) has so far introduced three cohorts on 'Retail Payments', 'Cross Border Payments', and 'MSME Lending'. To provide further impetus to the fintech ecosystem, a fourth cohort on 'Prevention and Mitigation of financial frauds' is being announced.
- In addition, based on the experience gained and the feedback received from stakeholders, it is proposed to facilitate the 'On Tap' application for earlier themes for participating in the Regulatory Sandbox. This measure is expected to ensure continuous innovation in the fintech ecosystem of our country.
- It has also been decided to continue with liberalised measures, enhancing the maximum number of days of overdraft (OD) in a quarter from 36 to 50 days and the number of consecutive days of OD from 14 to 21 days up to March 31, 2022.
- Considering the increased traction observed in the delivery of credit by NBFCs to the underserved/unserved segments of the economy, bank lending to registered NBFCs (other than MFIs) for on-lending to Agriculture, MSME and Housing were permitted to be classified as Priority Sector lending (PSL).

The increased strength and reach of NBFCs across the country has necessitated various measures by the Reserve Bank for the protection of customers of NBFCs. To further strengthen the internal grievance redress mechanism of NBFCs, it has been decided to introduce the Internal Ombudsman Scheme (IOS) for specific categories of NBFCs having a higher customer interface.

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