

Fifth Bi-monthly Monetary Policy Update, 2020-21

February, 2021

Outcome of the Fifth bi-monthly monetary policy was in line with market expectation. The Monetary Policy Committee (MPC) decided to keep the key policy repo rate unchanged at 4%. The MPC decided to maintain the accommodative monetary policy stance as long as it is necessary at least during the current financial year and into the next financial year to revive growth, while ensuring inflation remained within target.

Key Outcome

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.00%.
- Consequently, the reverse repo rate under the LAF was also unchanged at 3.35%.

Key Announcement

Liquidity Measures

- Funds from banks under Targeted Long Term Repo Operations (TLTRO) on tap scheme to be provided to NBFCs for lending in specific stressed sectors.
- CRR to be raised to 3.5% from March 27, 2021 and 4.0% from May 22, 2021.
- MSF relief facility for banks to be available for another 6 months till September.
- MSF relief provides increased access to funds to the extent of Rs 1.53 lakh crore.
- To extend dispensation of enhanced HTM of 22% up to March 31, 2023.
- To include securities acquired between April 1, 2021 and March 31, 2022 in HTM dispensation.
- The HTM limits will be restored to 19.5% in a phased manner starting from April-June 2023.

Key Announcement

- Proposed to provide retail investors access to government bond market, both primary and secondary, directly through the RBI.
- Retail investors will now have direct access to participate in the G-Sec market.
- To permit resident individuals to make remittances to IFSCs for investment in securities for investment in instruments issued by non-resident entities in IFSCs.
- **One nation, one ombudsman:** To make ombudsman scheme more efficient, a central integrated ombudsman scheme to be rolled out for redress of grievances from June 2021.

GDP & Inflation Outlook

- FY2022 GDP growth is pegged at projected in 10.5%
- RBI projects CPI inflation at 5.2% in Q4 FY21.
- RBI projects CPI inflation at 5.2-5.0% in first half of FY22.
- RBI projects CPI inflation at 4.3% in Q3 Fy22.

Conclusion

The outcome of the Fifth bi-monthly monetary policy announcement is a status quo and is in line with market expectation. It was expected that RBI would hold the repo rate steady in order to keep a cap on the yields of government securities which are likely to face upward pressure due to higher borrowings planned by the government in FY 2021-22. On Growth outlook, The RBI estimated that the GDP growth rate for 2021-22 would be at 10.5 per cent. Emphasizing the multi-speed recovery in economy, the central bank has announced that The funds from banks via TLTRO scheme now available to NBFCs for lending to stressed sectors. In a major structural reform, The RBI will soon allow retail investors open Gilt or G-Sec accounts with the central bank, a move that will help deepen bond markets in India. India will join a handful of countries where retail investors have direct access to government bonds both primary and secondary. The minutes of the MPC's meeting will be published by February 22, 2021. The next meeting of the MPC is scheduled during April 5 to 7, 2021.

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