RBI POLICY REVIEW

DALAL & BROACHA
STOCK BROKING PVT. LTD.

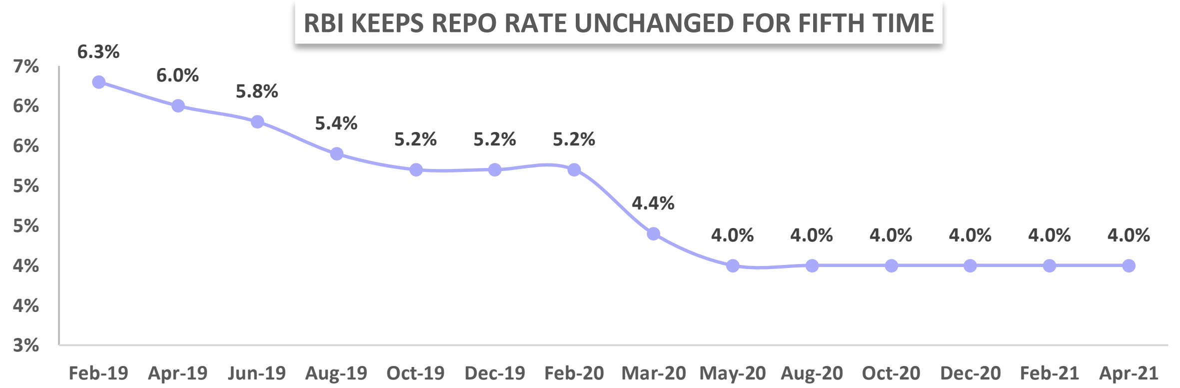
Event Update

Equity Research Desk

April 07, 2021

Maintains Accommodative Stance; Assures Liquidity as Economy Rebounds

RBI's monetary policy committee (MPC) has unanimously voted to keep rates on hold as was widely expected and reiterated that it will maintain the accommodative stance for as long as necessary to sustain growth on a durable basis. This indicates that the central bank is trying to mitigate the impact of COVID-19 on the economy while ensuring that inflation remains within the target range going forward. According to the central bank, the economy's growth outlook remained sturdy, and inflation is likely to remain within its targeted range over the next few quarters. The repo rate was held at 4%, while the reverse repo rate was left unchanged at 3.35%.



Policy Tools	Policy rates	Status
Repo	4.00%	Unchanged
Reverse Repo	3.35%	Unchanged
Marginal Standing Facility (MSF)	4.25%	Unchanged
Bank Rate	4.25%	Unchanged
SLR	18.0%	Unchanged

RETAINED GDP GROWTH PROJECTION AT 10.5% FOR FY221

The fiscal stimulus from increased allocation for capital expenditure under the Union Budget 2021-22, expanded production-linked incentives (PLI) scheme and rising capacity utilisation (from 63.3% in Q2 to 66.6% in Q3:2020-21) should provide strong support to investment demand and exports. Firms engaged in manufacturing, services and infrastructure polled by RBI in March 2021 were optimistic about a pick-up in demand and expansion in business activity into FY22. Consumer confidence, on the other hand, dipped with the recent surge in COVID infections in some states imparting uncertainty to the outlook. Taking these factors into consideration, real GDP growth is projected at 10.5% in FY22– consisting of 26.2% in Q1; 8.3% in Q2; 5.4% in Q3; and 6.2% in Q4 FY21.

Lowers inflation projection to 5.2% for H1FY22

After remaining elevated for eight consecutive months (Apr-Nov 2020), headline CPI has been within the RBI's comfort zone for three months now and is likely to remain so through FY22 as well. As per RBI's own forecasts, CPI inflation is projected at 5% for Q4 FY21, 5.2% for Q1 & Q2 of FY22, 4.4% for Q3FY22 and 5.1% for Q4 FY22, with risks broadly balanced. The bumper food grains production in 2020-21 should result in softening of cereal prices going forward. However, imported inflation from global commodity prices needs attenuation and required coordinated policy actions by Centre and States to mitigate domestic input costs such as taxes on petrol and diesel and high retail margins.

Outlook

RBI's decision to maintain an accommodative stance is on expected lines. The second wave of Covid-19 is now threatening a promising recovery. The continued emphasis towards maintaining balanced liquidity in the system by extending LTRO for six months and introducing secondary market G-sec acquisition program 1.0 certainly bodes well, indicates the central bank's commitment to sustain growth momentum in the economy. The program will not only cool off bond yields but also support the government's market borrowing program. While RBI tried to tick all the boxes, a lot will depend on how the COVID-19 scenario develops as it will have a huge impact on the economy and corporate earnings. We expect MPC to continue with its current policy stance for H1FY22 and may gradually start withdrawal of surplus liquidity from H2FY22 onwards.

Other Major Announcements

- **TLTRO on Tap Scheme- Extension of Deadline**
  - RBI has extended the TLTRO on tap scheme deadline till September 30, 2021. This will enable banks to borrow one to three years funds from the central bank at a repo rate and provide funds for stressed sectors by buying their investment grade debt securities.

This was necessary as the second wave of Covid may cause liquidity concern again in some sectors. This would have been extremely good if funds could have been used to buy slightly lower rated bonds also.

- **Liquidity facility to NABARD, NHB and SIDBI**
  - RBI has decided to extend fresh support of Rs 500 Bn to the AIFIs (all India finance institutions) for new lending in 2021-22.
  - NABARD will be provided a special liquidity facility (SLF) of Rs 250 Bn for a period of one year to support agriculture and allied activities, the rural non-farm sector and NBFC-MFIs.
  - SLF of Rs 100 Bn will be extended to NHB for one year to support the housing sector.
  - To meet the funding requirements of MSMEs, SIDBI will be sanctioned Rs 150 Bn under this facility for a period of upto one year.
  - Funds will be provided at prevailing repo rate

The funds will help microfinance institutions, housing finance companies and MSME's tide over any liquidity issue that will arise from second wave of Covid. Funds will enable them to continue lending to the poorest of poor in these times.

- **Enhancement of limits of maximum balance per customer at the end of the day from Rs1 lakh to Rs 2 lakh for Payments Banks**
  - RBI after review of performance of payments banks and with a view to encourage their efforts for financial inclusion and to expand their ability to cater to the needs of their customers, including MSMEs, small traders and merchants, has decided to enhance the limit of maximum balance at end of the day from Rs 1 lakh to Rs 2 lakh per individual customer.

100% increase in maximum balance will help boost the payment banks access to greater client network and improve digital transactions across the country

- **Priority Sector Lending classification for lending by banks to NBFCs for 'on-lending' extended**
  - RBI has decided to extend the PSL classification for lending by banks to NBFCs for 'on-lending' to agriculture/MSME and housing sectors for six months, i.e. up to September 30, 2021.

An amount of around Rs 370 Bn has been lent by banks to NBFCs for on-lending to the specified priority sectors till December 2020, it's a step in the right direction as NBFC provide credit at the bottom of the pyramid.

- **Centralised Payment Systems (CPS), viz- RTGS and NEFT – Membership for entities other than banks, outstanding balance in PPI increased from current level of ₹1 lakh to ₹2 lakh.**
  - Over the last few years, the role of non-bank entities in payment space (e.g. Prepaid Payment Instrument (PPI) issuers, Card Networks, White Label ATM (WLA) operators, Trade Receivables Discounting System (TReDS) platforms), has grown in importance and volume, as they have innovated by leveraging technology and offering customised solutions to users.
  - To reinforce this trend and encourage participation of non-banks across payment systems, it has been proposed to enable, in a phased manner, payment system operators, regulated by the Reserve Bank, to take direct membership in CPSs.
  - To incentivise the migration of PPIs to full-KYC, RBI has proposed to increase the limit of outstanding balance in such PPIs from the current level of Rs 1 lakh to Rs 2 lakh.

Digital transactions volume has shot up during covid times and these measures is another attempt by RBI to incentivise people to carry less cash and perform more digital transactions.

- **Financial Inclusion Index**

    - To measure the extent of financial inclusion in the country, the Reserve Bank will construct and periodically publish a "Financial Inclusion Index" (FI Index).
    - The FI Index would be based on multiple parameters and shall reflect the broadening and deepening of financial inclusion in the country. To begin with, the FI Index will be published annually in July for the financial year ending previous March.

One has to see what are the parameters based on which this index will be constructed, it's a step in the right direction as financial inclusion is vital for the uplift of poor and disadvantaged people.

- **RBI announces Government Security Acquisition Programme**

    - In the first quarter (Q1), the central bank will be conducting G-SAP aggregating Rs 1 lakh crore, where the first purchase of Rs 250 Bn will be done on April 15, 2021.
    - RBI's objective is to avoid volatility in GSEC market and will also enable flattening of yield curve.

This will enable Government to borrow at low cost for its expenses and will also flatten the yield curve. Many financial market instruments use G-sec for its pricing and this acquisition will keep long term rates in check.

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