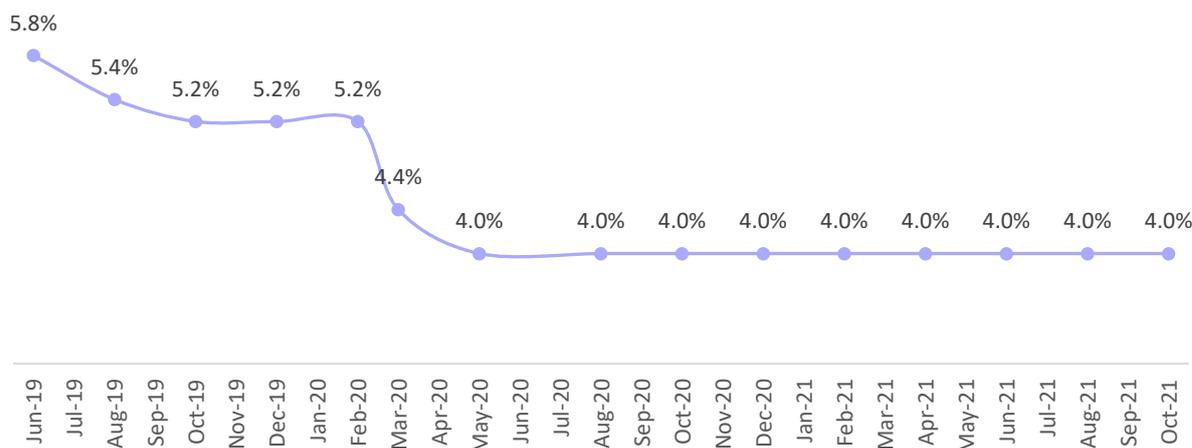


Maintains Accommodative Stance

October 08, 2021

As expected, RBI has maintained a status-quo on policy rates for the eighth time in a row and reiterated that it will maintain the accommodative stance for as long as necessary to sustain growth on a durable basis. With this, the central bank is trying to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. RBI's Monetary Policy Committee (MPC) voted unanimously to keep policy rates unchanged, while it voted 5:1 to maintain an 'accommodative' stance. Meanwhile, the central bank also emphasised about economic activity, which gained momentum, supported by ebbing of infections, the robust pace of vaccination, government's focus on capital expenditure, and buoyant external demand.

RBI KEEPS REPO RATE UNCHANGED



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

MAINTAINED GDP GROWTH PROJECTION AT 9.5% FOR FY22

RBI maintains real GDP growth projection at 9.5% in FY22, consisting of 7.9% in Q2, 6.8% in Q3, and 6.1% in Q4 FY22. Real GDP growth for Q1 in FY23 is projected at 17.2%. Domestic economic activity is gaining traction with the ebbing of the second wave. Rural demand is likely to maintain its buoyancy, given the above normal kharif sowing while rabi prospects are bright. Besides, the substantial acceleration in the pace of vaccination, the sustained lowering of new infections and the coming festival season should support a rebound in the pent-up demand for contact intensive services, strengthen the demand for non-contact intensive services, and bolster urban demand. Meanwhile, capacity utilisation is improving, while the business outlook and consumer confidence are reviving.

LOWERS INFLATION PROJECTION TO 5.3% FOR FY22

The central bank has lowered its FY22 CPI Inflation projection to 5.3% from the earlier 5.7%. CPI inflation is likely to be ~ 5.1% in Q2FY22, falling to 4.5% in Q3FY22 and again rising to 5.8% in Q4FY22. CPI headline momentum is moderating with the easing of food prices which, combined with favourable base effects, could bring about a substantial softening in inflation in the near-term. However, pressures persist from crude oil prices which remain volatile over uncertainties on the global supply and demand conditions. Domestic pump prices remain at very high levels. Rising metals and energy prices, acute shortage of key industrial components and high logistics costs are adding to input cost pressures.

Outlook

RBI's decision to maintain an accommodative stance is on expected lines. This will continue to support the credit off-take and maintain a benign interest rate scenario in the money market system. While food inflation is expected to remain low, one must keep an eye on overall inflation given the continuing commodity price pressures, industrial raw material shortages and the impending recovery in consumer demand amidst the festive season. n. We do not see any rate actions in FY22.

Other Major Announcements

• SLTRO on Tap Scheme for Small Finance Banks facility extended

- Small Finance Banks (SFBs) have been playing a prominent role in providing last mile credit to individuals and small businesses. A three-year special long-term repo operations (SLTRO) facility of ₹10,000 crore at the repo rate was made available to them in May 2021 to be deployed for fresh lending of up to ₹10 lakh per borrower. This facility was made available till October 31, 2021. Recognising the persisting uneven impact of the pandemic on small business units, micro and small industries, and other unorganised sector entities, RBI has been decided to extend this facility till December 31, 2021. Further, this will now be available on tap to ensure extended support to these entities.

This is a welcome step as small business units can approach these small finance banks for loans and avail them at attractive rates, to aggressively grow their business.

• Enhancing Transaction Limit in IMPS to ₹5 lakh

- The per-transaction limit in IMPS, effective from January 2014, is currently capped at ₹2 lakh for channels other than SMS and IVRS. The per-transaction limit for SMS and IVRS channels is ₹5000. With RTGS now operational round the clock, there has been a corresponding increase in settlement cycles of IMPS, thereby reducing the credit and settlement risks.
- In view of the importance of the IMPS system in processing of domestic payment transactions, RBI has proposed to increase the per-transaction limit from ₹2 lakh to ₹5 lakh for channels other than SMS and IVRS.
- This will lead to further increase in digital payments and will provide an additional facility to customers for making digital payments beyond ₹2 lakh. Necessary instructions in this regard would be issued by RBI separately.

Digital payments is the way forward and increasing IMPS limit to INR 5 lakh is another step towards cashless payments.

• Introduction of Digital Payment Solutions in Offline mode

- Three pilots were successfully conducted under the Scheme in different parts of the country during the period from September 2020 to June 2021 involving small-value transactions covering a volume of 2.41 lakh for value ₹1.16 crore.
- The learnings indicate that there is a scope to introduce such solutions, especially in remote areas. Given the experience gained from the pilots and the encouraging feedback, it is proposed to introduce a framework for carrying out retail digital payments in offline mode across the country. Detailed guidelines will be issued by RBI in due course.

- **Priority Sector Lending - Permitting Banks to On-lend through NBFCs - Continuation of Facility**

- With a view to increase the credit flow to certain priority sectors of the economy which contribute significantly to growth and employment, and recognizing the role played by NBFCs in providing credit to these sectors, bank lending to registered NBFCs (other than MFIs) for on lending to Agriculture (investment credit), Micro and Small enterprises and housing (with an increased limit) was permitted to be classified as priority sector lending up to certain limits in August 2019, which was last extended on April 07, 2021 and was valid up to September 30, 2021.
- Considering the increased traction observed in delivering credit to the underserved/unserved segments of the economy, it has been decided to extend this facility till March 31, 2022.

From the time when banks and NBFC's used to compete with one another, time has come when they are working together to increase credit flow on directions by the Government, which is a huge positive.

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