RBI Bi-monthly MPC: Policy Rates kept Unchanged

GlobalBull Financial Services LLP

9th October 2020

The MPC kept policy repo rate unchanged at 4% and stance to remain accommodative.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35%, and the marginal standing facility (MSF) rate and the Bank Rate at 4.25%.

RBI statement - These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

To provide impetus towards reviving the economy, certain additional measures were announced:

(i) Enhance liquidity support for financial markets: On Tap TLTRO, SLR Holdings in Held to Maturity Category increased from 19.5% to 22% of NDTL and OMOs in SDLs.

(ii) Regulatory support to improve the flow of credit to specific sectors within the ambit of the norms for credit discipline.

(iii) Provide a boost to exports.

(iv) Deepen financial inclusion and

(v) Facilitate ease of doing business by upgrading payment system services (RTGS system 24*7 from Dec20)

RBI projects CPI inflation at 6.8% in Q2 FY21, 5.4-4.5% in H2 FY21 and 4.3% in Q1 FY22.

The baseline inflation outlook is likely to be influenced by several factors:

- Kharif sowing portends well for food prices.
- Pressures on prices of key vegetables like tomatoes, onions and potatoes should also ebb by Q3 with kharif arrivals.
- On the other hand, prices of pulses and oilseeds are likely to remain firm due to elevated import duties.
- International crude oil prices have traded with a softening bias in September on a weak demand outlook, but domestic pump prices may remain elevated in the absence of any roll back of taxes.
- Pricing power of firms remains weak in the face of subdued demand.
- COVID-19-related supply disruptions, including labour shortages and high transportation costs could continue to impose cost-push pressures but these risks are getting mitigated by progressive easing of lockdowns and removal of restrictions on inter-state movements.

GDP growth for FY21 is projected at -9.5%,-9.8% in Q2,-5.6% in Q3,0.5% in Q4;20.6% in Q1 FY22

The growth outlook will be influenced by several factors & uncertain COVID-19 trajectory:

- Recovery in the rural economy is expected to strengthen further, while the turnaround in urban demand is likely to be lagged in view of social distancing norms and the elevated number of COVID-19 infections.
- While the contact-intensive services sector will take time to regain pre-COVID levels, manufacturing firms expect capacity utilisation to recover in Q3:2020-21 and activity to gain some traction from Q4 onwards.
- Both private investment and exports are likely to be subdued, especially as external demand is still anaemic.