



MONETARY POLICY REPORT FOR THE FIRST QUARTER 2021-22

The Monetary Policy Committee (MPC) in its monetary policy report has decided to keep the policy rates unchanged in its fourth quarterly policy for the FY 2020-21.

The Current policy rates are now as follows:

- 1. Repo Rate – 4.00%**
- 2. Reverse Repo Rate – 3.35%**
- 3. Marginal Standing Facility Rate – 4.25%**
- 4. Bank Rate – 4.25%**

The Reverse Ratios Rates currently stands at:

- 1. Cash Reserve Ratio (CRR) – 3.50%**
- 2. Statutory Liquidity Ratio (SLR) – 18.00%**

The Lending/Deposit Rates currently stands at:

- 1. Marginal Cost of funds-based Lending Rate (MCLR) – 6.55% - 7.05%**
- 2. Savings Deposit Rate – 2.70% - 3.00%**
- 3. Term Deposit Rate > 1 year – 4.90% - 5.50%**

The MPC also decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

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



KEY MONETARY POLICY HIGHLIGHTS

GLOBAL ECONOMY

- The global economy had remained linger in Q4 of 2020, although recent arrivals of high frequency indicators suggest that a gradual but uneven recovery may be forming. The anticipated boost to economic activity from vaccination rollouts is being held back by second and third waves of COVID-19 cases.
- World trade activity improved in Q4 2020 and January 2021. There are concerns due to COVID-19 related fresh lockdowns and low demand in few major economies, rise in shipping charges and container shortages. Inflation remains concern in major advanced economies, highly accommodative stance and large fiscal stimulus have added to concerns around the market regarding the rise in inflation and unsettled bond markets globally.
- Equity and currency markets have been turbulent with the increase in long-term bond yields and the steepening of yield curves. Recently the bond yield has calmed and major equity markets have reached new highs in March. while currencies are trading mixed against a generally firming US dollar. With the bond markets sell-offs, EME assets came under selling pressure and capital outflows imposed depreciating pressures on EME currencies in March.

DOMESTIC ECONOMY

- The National Statistical Office (NSO) on February 26, 2021 placed India's real gross domestic product (GDP) contraction at 8.0 per cent during the year. High frequency indicators – vehicle sales; railway freight traffic; toll collections; goods and services tax (GST) revenues; e-way bills; and steel consumption – suggest that gains in manufacturing and services activity in Q3:2020-21 extended into Q4.
- Purchasing managers' index (PMI) manufacturing at 55.4 in March 2021 remained in expansion zone, but lower than its level in February. The index of industrial production slipped into marginal contraction in January 2021, dragged down by manufacturing and mining. Core industries also contracted in February. The resilience of agriculture is evident

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from food grains and horticulture production for 2020-21, which are expected to be 2.0 per cent and 1.8 per cent higher respectively than the final estimates of 2019-20.

- Inflation increased to 5.0 per cent in February after having eased to 4.1 per cent in January 2021. Within an overall food inflation print of 4.3 per cent in February, five out of twelve food sub-groups recorded double digit inflation. While fuel inflation pressures eased somewhat in February, core inflation registered a generalized hardening and increased by 50 basis points to touch 6 per cent.
- liquidity remained in large surplus in February and March 2021 with average daily net liquidity absorption of ₹5.9 lakh crore. Driven by currency demand, reserve money (RM) increased by 14.2 per cent (y-o-y) as on March 26, 2021. Money supply (M3) grew by 11.8 per cent as on March 26, 2021 with credit growth at 5.6 per cent.
- Corporate bond issuances at ₹6.8 lakh crore during 2020-21 (up to February 2021) were higher than ₹6.1 lakh crore during the same period last year. Issuances of commercial paper (CPs) turned around since December 2020 and were higher by 10.4 per cent during December 2020 to March 2021 than in the same period of the previous year.
- India's foreign exchange reserves increased by US\$ 99.2 billion during 2020-21 to US\$ 577.0 billion at end-March 2021, providing an import cover of 18.4 months and 102 per cent of India's external debt.

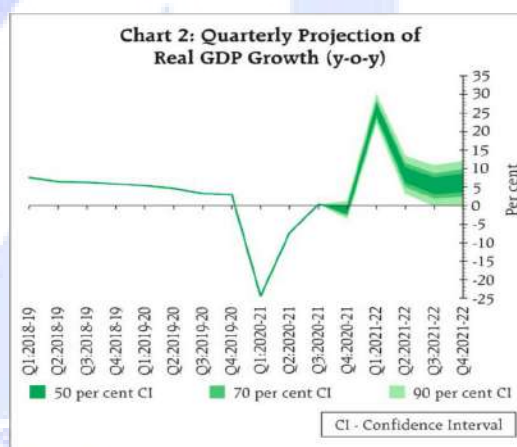
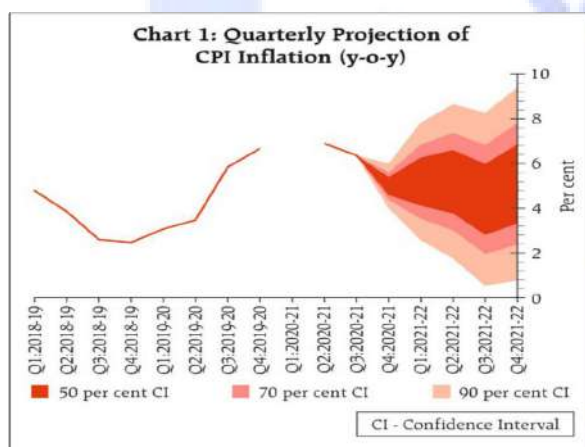
OUTLOOK

- CPI inflation subjected to both upside and downside pressures. The bumper food grains production in 2020-21 should sustain softening of cereal prices going forward. While the prices of pulses, particularly *tur* and *urad*, remain elevated, the incoming *rabi* harvest arrivals in the markets and the overall increase in domestic production in 2020-21 should augment supply which, along with imports, should enable some softening of these prices going forward. While edible oils inflation has been ruling at heightened levels with international prices remaining firm, reduction of import duties and appropriate incentives to enhance productivity domestically could work towards a better demand-supply balance over the medium-term.
- Pump prices of petroleum products have remained high. Reduction of excise duties and cesses and state level taxes could provide some relief to consumers on top of the recent easing of international crude prices.
- High international commodity prices and increased logistics costs are being felt across manufacturing and services.

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- Taking into consideration all these factors, CPI inflation is now projected as 5.0 per cent in Q4:2020-21; 5.2 per cent in Q1:2021-22, 5.2 per cent in Q2, 4.4 per cent in Q3 and 5.1 per cent in Q4.
- The growth outlook, rural demand remains buoyant and record agriculture production for 2020-21 bodes well for its resilience. Urban demand has been gaining strength on the back of normalization of economic activity and should get a fillip with the ongoing vaccination drive.
- The fiscal stimulus from increased allocation for capital expenditure under the Union Budget 2021-22, expanded production-linked incentives (PLI) scheme and rising capacity utilization (from 63.3 per cent in Q2 to 66.6 per cent in Q3:2020-21) should provide strong support to investment demand and exports. Firms engaged in manufacturing, services and infrastructure polled by the Reserve Bank in March 2021 were optimistic about a pick-up in demand and expansion in business activity into 2021-22.
- Consumer confidence, on the other hand, has dipped with the recent surge in COVID infections in some states imparting uncertainty to the outlook.
- **The projection of real GDP growth for 2021-22 is retained at 10.5 per cent consisting of 26.2 per cent in Q1, 8.3 per cent in Q2, 5.4 per cent in Q3 and 6.2 per cent in Q4.**



The MPC notes that the supply side pressures on inflation could persist. It also notes that demand-side pull remains moderate. The renewed jump in COVID-19 infections in certain parts of the country and the associated localised lockdowns could dampen the demand for contact-intensive services, restrain growth impulses and prolong the return to normalcy.

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Taking these developments into consideration, the MPC decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

MONETARY POLICY REPORT
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