MONETARY POLICY REPORT

FOR THE THIRD QUARTER 2020-21

The Monetary Policy Committee (MPC) in its monetary policy report has decided to keep the policy rates unchanged in its third 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) – 3.00%**
2. **Statutory Liquidity Ratio (SLR) – 18.00%**

The Lending/Deposit Rates currently stands at:

1. **Marginal Cost of funds-based Lending Rate – 7.40% - 8.80%**
2. **Savings Deposit Rate – 6.60% - 7.10%**
3. **Term Deposit Rate > 1 year – 4.90% - 5.50%**

The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and 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.

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KEY MONETARY POLICY HIGHLIGHTS

GLOBAL ECONOMY

- The outlook for Q4 (October-December) of 2020 is overcast with a surge in COVID-19 infections in a second wave across Europe, the US and major emerging market economies (EMEs), with accompanying lockdowns.

- World trade recorded a rebound in Q3 as lockdowns were eased, but it is likely to slow in Q4 as pent-up demand is exhausted, inventory restocking is completed, and trade-related uncertainty is rising with the second wave.

- Global financial markets remain buoyant, supported by highly accommodative monetary policies and positive news on the vaccine.

DOMESTIC ECONOMY

- A contraction of **7.5%** in **real GDP** in **Q2:2020-21** (July-September). In **Q3:2020-21**. recovery in the following sectors has helped GDP in lower contraction, double digit growth in passenger vehicles and motorcycle sales, railway freight traffic, and electricity consumption in October, favourable monsoon, the outlook for agriculture remains bright, with **rabi sowing up 4.0%**.

- **CPI inflation** rose sharply to **7.3%** in **September** and further to **7.6%** in **October** 2020. Food inflation surged to double digits. Core inflation, i.e., CPI excluding food and fuel, also picked up from **5.4%** in **September** to **5.8%** in **October**.
  Household inflation has eased.

- Domestic financial conditions remained easy in October-November. Reserve money increased by **15.3%** (y-o-y) (as on November 27, 2020), grew by only **12.5%** as on November 20, 2020, large inflow of deposits into the banking system was being deployed in SLR investment.

- **Corporate bond issuances** stood at **₹4.4 lakh crore** during **April-October 2020** as against ₹3.5 lakh crore during the same period last year.

- **India's foreign exchange reserves** were **US$ 574.8 billion** (as on November 27), up from **US$ 545.6 billion** on October 2

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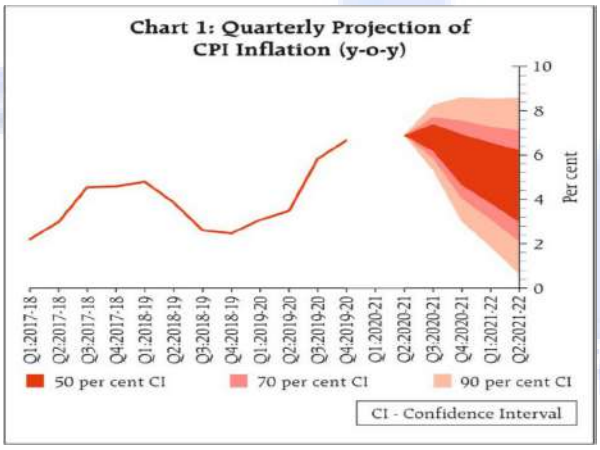
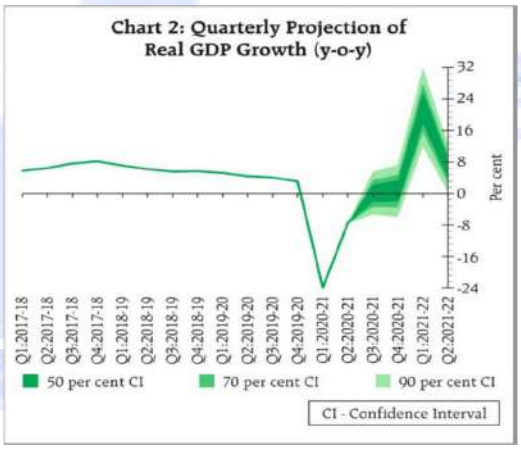
OUTLOOK FOR THE COMING QUARTER FOR THR FY 2020-21

1. The outlook for inflation has turned adverse relative to expectations in the last two months. Cereal prices may continue to soften with the bumper kharif harvest arrivals and vegetable prices may ease with the winter crop, other food prices are likely to persist at elevated levels.
2. Crude oil prices have picked up on optimism of demand recovery due to continuation of OPEC *plus* production cuts and the oil prices are expected to remain volatile in the near-term.
3. CPI inflation is expected at **6.80**% for **Q3 2020-21**, **5.8%** for **Q4 2020-21.**
4. The rural demand is expected to strengthen further, while urban demand is also gaining momentum as unlocking increases activity and employment.
5. The COVID-19 cases pn the other hand has been increasing in various parts of the country but at the same time the recovery rate has crossed **94%** and there is considerable optimism on successful vaccine trials.
6. Fiscal stimulus provided by the government has helped in providing support and liquidity for growth generating investment.
7. Private investment is still slack and capacity utilisation has not fully recovered. While exports are on an uneven recovery.

Considering all these factors into consideration, real GDP growth is expected at -7.5% in 2020-21, 0.1% in Q3 2020-21 and 0.7% in Q4 2020-21. The MPC report suggest that GDP will show recovery in the coming quarters ahead with easing COVID-19 on the optimism of vaccine and as the economy activity spurs across the country.





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