MONETARY POLICY REPORT FOR THE FOURTH QUARTER 2020-21

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) – 3.00%**
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 – 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 global economy recovery slackened in Q4 (October-December) of 2020 relative to Q3 (July-September) as several countries battle second waves of COVID-19 infections.

- In January 2021, the International Monetary Fund (IMF) has revised its estimate of global growth in 2020 to -3.5% from -4.4% and increased the global growth for 2021 by 0.30% to 5.5%.

- Global financial markets remain buoyant, supported by easy monetary conditions , abundant liquidity and optimism from vaccine rollout. Global trade expected to rebound in 2021, with services trade on a slower recovery than merchandise trade.

DOMESTIC ECONOMY

- The GDP for 2020-21 released by the National Statistics Office on January 7, 2021, the **real GDP** is estimated to contract by **7.7%**, in line with the projection of **-7.5%** set out in **December 2020**. Railway freight traffic, toll collection, e-way bills and steel consumption sectors saw revival in Q3. The agriculture sector remains resilient – **rabi sowing** was higher by **2.9%** year on year as on January 29, 2021, supported by above normal **monsoon rainfall** and **adequate reservoir** level of **61%** of full capacity, above 10 years average of 50%.

- **CPI inflation** fell to **4.6%** in **December** due to easing food prices. Food inflation decline to **3.6%** in **December** after averaging **9.6%** in **previous quarter** due to sharp correction in vegetable and softening of cereal prices. The **CPI inflation** elevated at **5.5%** in **December** and is expected to soften further.

- Liquidity remained in large surplus in December 2020 and January 2021. **Reserve money** rose by **14.5% year on year**. **Money supply** grew by **12.5%** as on January 15, 2021 with non-food credit growth of scheduled **commercial banks** increased to **6.4%**. **Corporate bond issuances** at **5.8 lakh crore** during April-December 2020 higher than 4.6 lakh crore in the same period of last year.

- **India's foreign exchange reserves** were **US$ 590.2 billion** (as on January 29, 2021), an increase of **US$ 112.4 billion over end-march 2020.**

OUTLOOK FOR THE COMING QUARTER FOR THR FY 2021-22

1. Decline in the inflation rates due to fall in the vegetable prices in December. The bumper kharif crop, rising of good rabi harvest and softer egg and poultry demand are factors for low inflation rates in coming months ahead. Price pressure may still persist in pulses, edible oils, spices and non-alcoholic beverages
.
2. International crude oil remain supported by demand build up on optimism from vaccination and continuing production cuts by OPEC plus.

3. Rural demand is likely remain resilient on good prospects of agriculture. Urban demand and demand for contact-intensive services to strengthen with substantial fall in COVID-19 cases and spread of vaccination.

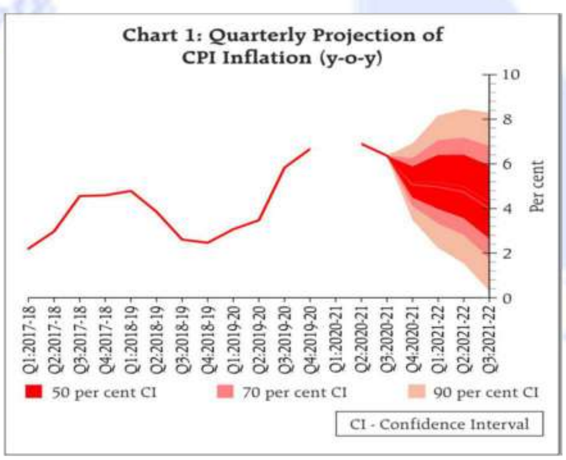
4. Consumer confidence is reviving and business expectations of manufacturing, services and infrastructure remain upbeat. The fiscal stimulus under **AtmaNirbhar 2.0 and 3.0** schemes of government will likely accelerate public investment, although private investment remains sluggish.

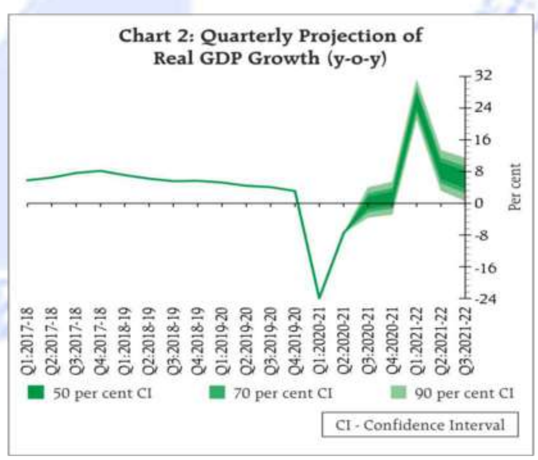
5. The Union Budget 2021-22 emphases on sectors such as health, infrastructure, innovation and research will help in accelerating the growth momentum.

6. Sharp correction in food prices has improved the food price outlook, but some pressure still persist and core inflation remains elevated.

7. Unwinding of taxes on petroleum products could ease the cost of inflation.

Considering all these factors into consideration, real GDP growth is projected at 10.5% in 2020-21. In the range of 8.3% in H1 and 6% in Q3. The MPC report suggest that GDP will show further recovery in the coming quarters.





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