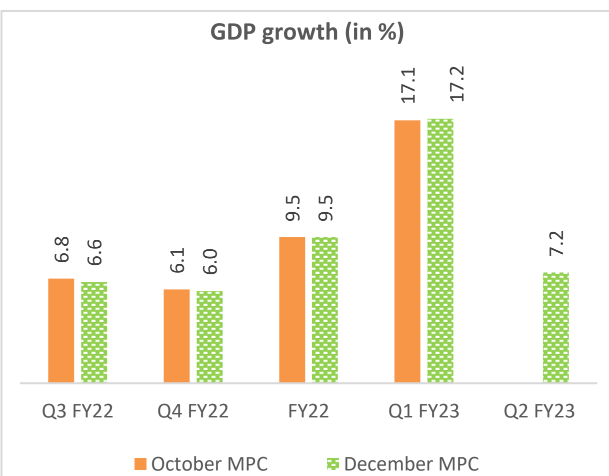
RBI maintains status quo; normalisation of liquidity continues

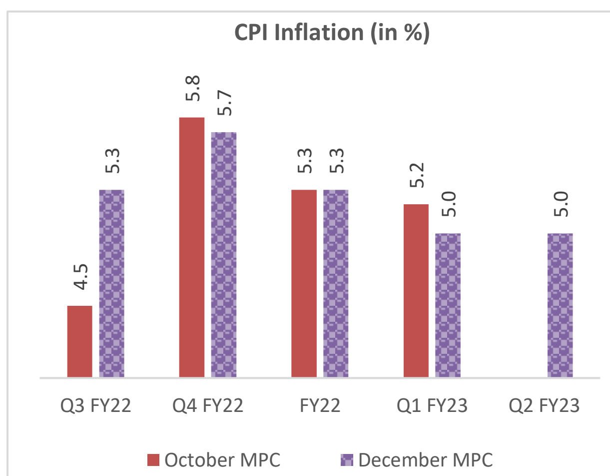
Brickwork Ratings, Bengaluru, 08 December 2021: The Reserve Bank of India (RBI) maintained a status quo on policy rates and continued the accommodative policy stance in its Monetary Policy Committee (MPC) decision announced today. Both these decisions of the MPC are in line with the Brickwork Ratings (BWR) expectations.

Key takeaways from today's announcements

- Retain the key policy rates; repo rate at 4%, reverse repo rate at 3.35% and MSF rate at 4.25%
- Maintain the accommodative stance with a 5-1 majority
- Variable Reverse Repo Rate (VRRR) to be the main liquidity operation from January 2022, increase in VRRR auction amounts; 14-day VRRR to be complimented by longer-term VRRR
- Proposes to return to normal Marginal Standing Facility (MSF); banks can undertake overnight borrowings under MSF up to 2% of Net Demand and Time Liabilities (NDTL) from 3% of NDTL from 1 January 2023
- GDP FY22 growth outlook retained at 9.5%; Q3 and Q4 outlook revised marginally lower
- CPI inflation outlook retained at 5.3% for FY22; Q3FY22 outlook increased marginally.

GDP and Inflation Outlook by RBI





Source: Monetary Policy Statement, BWR Research

Signalling the continuation of its gradual move towards normalising its monetary policy, the RBI has proposed to return to the normal dispensation under the MSF by limiting it to 2% of the NDTL, instead of 3% of the NDTL, from 1 January 2022. Additionally, the RBI has announced the absorption of liquidity under two VRRR operations. To rebalance liquidity conditions in a non-disruptive manner, it has enhanced the 14-day VRRR auction amounts on a fortnightly basis - Rs 6.5 trillion on 17 December and another Rs 7.5 trillion on 31 December 2021. The RBI has also assured that it will retain the flexibility to conduct fine-tuning operations of varying amounts/maturities as and when required, while maintaining adequate liquidity to meet the needs of the economy's productive sectors. To anchor the interest rates based on evolving macroeconomic and financial conditions, it may undertake operation twists and open market operations, if necessary.

Says Dr M Govinda Rao, Chief Economic Advisor, Brickwork Ratings, "The decision to hold the policy rates by the MPC is on expected lines. On the GDP guidance, the RBI has retained the growth forecast at 9.5% for FY22, while revising the Q3 estimate downwards from 6.8% to 6.6% and the Q4 estimate from 6.1% to 6%. Although the RBI has lowered its GDP forecasts for H2FY22, it hopes for 17.2% growth in Q1FY23 mainly due to the base effect. It has sounded a note of caution on downside risks to growth emanating from the resurgence of Covid variants, normalisation of liquidity conditions in other advanced economies, global supply-chain bottlenecks, and elevated international commodity prices. On the inflation front, the RBI sees prices hardening in Q3 FY22, but has retained the inflation forecast at 5.3% for FY22. The expectation of inflation moving within the MPC's upper range provides scope for the continuation of the accommodative policy stance in the current fiscal. Overall, the MPC has continued with the accommodative stance to support and nurture the nascent growth recovery. It has also indicated the continuation of liquidity normalisation, keeping in view the requirements of the market".

Says Rajee R, Chief Ratings Officer, Brickwork Ratings: "The RBI has retained rates and maintained its accommodative stance, which is a welcome move to support growth oriented towards domestic circumstances and augurs well for interest-sensitive sectors. In view of the evolving economic scenario and uncertainties associated with the scale of recovery, especially in view of the possible economic impact due to the Omicron variant and concerns on the supply-side challenges to meet catch-up demand, the RBI has reiterated its policy support to broaden growth impulses and encourage credit flow to productive sectors. Continuing with its calibrated liquidity management policy to maintain financial stability, the RBI has emphasized that VRRR would be the main tool for liquidity management, indicating gradual policy normalisation on the liquidity front. While stating that headline inflation will peak in Q4 of this fiscal year, the RBI has maintained its inflation projections at 5.3% for FY22 and a dovish forecast at around 5% thereafter. The decision to allow banks to infuse capital in their overseas branches and subsidiaries and repatriate profits without seeking prior approval of the RBI will provide much needed operational and financial flexibility to the banks. The announcement of discussion papers on charges on digital payments in India and on prudential norms for the investment portfolio of banks are positive steps."

Announcements on Developmental and Regulatory Policies

- With a view to provide operational flexibility to banks, the RBI has decided that banks meeting regulatory capital requirements may, with the approval of their boards, infuse capital in their overseas branches and subsidiaries, retain profits in these centres and repatriate/transfer profits therefrom, without prior approval from the RBI, subject to post facto reporting.
- The RBI has proposed to issue a discussion paper on the review of prudential norms for the investment portfolio of banks, to revise and update the norms, in view of the subsequent significant developments in the global standards on the classification, measurement and valuation of investments and linkages with the capital adequacy framework, as well as progress in the domestic financial markets.
- To consider differences in credit risk and term premia between the LIBOR and ARRs, for new foreign currency ECBs and TCs, the RBI has proposed to revise the all-in-cost ceiling from 450 bps to 500 bps and from 250 bps to 300 bps, respectively, over the ARRs.
- The RBI has proposed to issue a discussion paper that will cover all the aspects related to charges involved in various channels of digital payments such as credit cards, debit cards, prepaid payment instruments (cards and wallets) and UPI.
- The RBI has proposed to launch a UPI-based payment product for feature phone users, to deepen financial penetration, as it is important to bring feature phone users into the mainstream digital payments.
- The RBI has proposed to offer a simpler process flow by enabling small value transactions through an "on-device' wallet in the UPI app, which will conserve banks' system resources, without any change in the transaction experience for the user.
- To further encourage the use of UPI by retail investors, it is proposed to enhance the transaction limit for payments through UPI for Retail Direct Scheme and IPO applications from Rs 2 lakh to Rs 5 lakh.

Contacts:

Dr M Govinda Rao
Chief Economic Adviser

Anita Shetty
Senior Research Analyst

Rajee R
Chief Ratings Officer

Investors & Media Contact
+91 95133 99706
1-860-425-2742
investordesk@brickworkratings.com
media@brickworkratings.com

ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR) is India's home-grown credit rating agency built with the superior analytical prowess of the industry's most experienced credit analysts, bankers and regulators. Established in 2007, BWR aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. BWR provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. BWR has employed over 350 working professionals including credit analysts and credit market professionals across 8 offices in India. Our experienced analysts have published over 12,000 ratings across asset classes. BWR is committed to providing the investment community with products and services needed to make informed investment decisions. BWR is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Agency (ECAI) by the Reserve Bank of India (RBI) to carry out credit ratings in India. BWR is promoted by Canara Bank, India's leading public sector bank. More information on Canara Bank is available for reference at www.canarabank.com

BWR Rating Criteria are available at https://www.brickworkratings.com/ratingscriteria.aspx

Brickwork Ratings, a SEBI-registered credit rating agency, has also been accredited by the RBI, and it offers rating services for bank loan, NCD, commercial paper, bonds, securitised paper etc. BWR has Canara Bank, a nationalised bank, as its promoter and strategic partner.
BWR has its corporate office in Bengaluru and a country-wide presence, with offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitised paper of over ₹ 10,00,000 Cr. Additionally, fixed deposits and commercial papers, among others, worth over ₹24,440 Cr have been rated.

DISCLAIMER

 In issuing and maintaining its ratings, Brickwork Ratings relies on factual information it receives from issuers and underwriters and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Brickwork Ratings' factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Brickwork Ratings' ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering documents and other reports. In issuing its ratings Brickwork Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed. THE INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY KIND. A Brickwork Ratings rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time, for any reason in the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Neither Brickwork Ratings nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "BWR Reps") guarantee the accuracy, completeness or adequacy of the Report, and no BWR Reps shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of this publication. In no event shall any BWR Reps be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages. Brickwork Ratings receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.