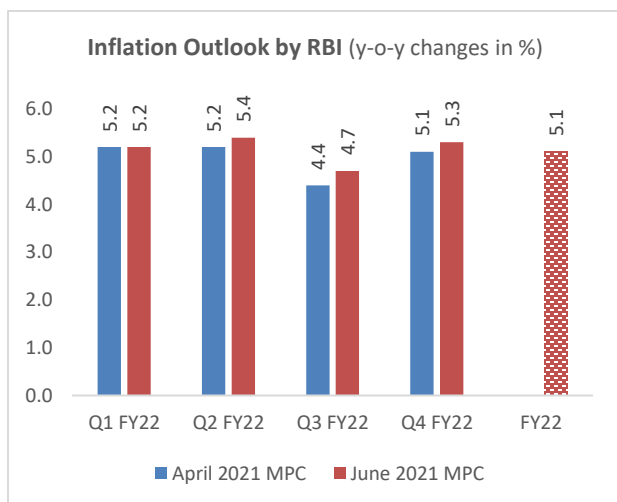
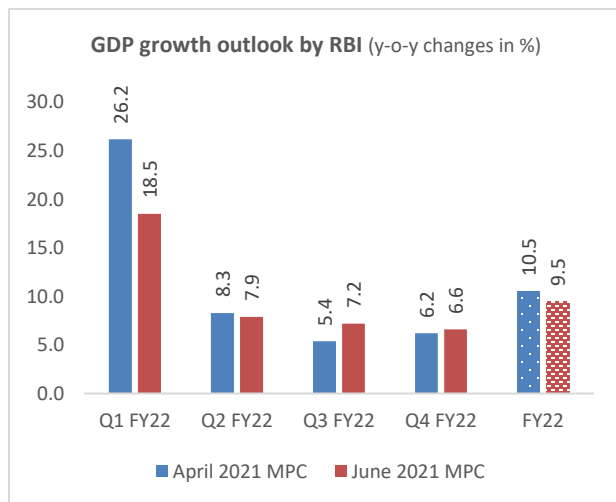


RBI's continued accommodative stance and steps announced in June MPC would increase consumption demand and aid incremental economic activity: Brickwork Ratings

Brickwork Ratings, Bengaluru, 4 June 2021: The Reserve Bank of India (RBI), after its second bi-monthly Monetary Policy Committee (MPC) meeting for the current fiscal year announced today, maintained a status quo and an accommodative policy stance. Both the decisions of the MPC are in line with BWR expectations.

Growth and Inflation Outlook: Hope generated by the vaccination drive has been offset by the surge in the number of cases across several states and the virus spreading into smaller towns and villages in the recent months. Due to the fresh restrictions imposed by the states to contain the virus spread, recovery in most sectors of the economy has again been disrupted. Some high-frequency indicators also reflected a sequential moderation in the first two months of FY22. However, the impact on economic activity is expected to be relatively contained in the second wave compared to the first wave. On the guidance on growth outlook, the RBI lowered its GDP forecast to 9.5% from 10.5% for FY22. On the inflation front, the RBI sees a slight hardening of prices in Q2, Q3 and Q4 of FY22, and forecast 5.1% inflation for FY22.



Source: RBI's Monetary policy statements, BWR Research



The second wave of Covid-19 infections has created renewed uncertainty, and hence, the RBI continued with the accommodative policy stance to support growth revival through announcing regulatory and liquidity-easing measures. This would ensure smooth borrowing and lending activities and create conducive financial conditions so that financial markets and institutions keep functioning normally.

Says **Dr M Govinda Rao, Chief Economic Advisor, Brickwork Ratings**, "The decision to hold the policy rates by the MPC is on expected lines, and there are no surprises. The expectation of inflation moving within the MPC's upper range provides scope for the continuation of the accommodative policy stance for the near term. Although the RBI has lowered its GDP forecasts, the expectation of 18.5% growth for Q1FY22 brings some optimism. Overall, the MPC's growth and inflation estimates seem credible, with an upward bias in the former, and the assurance of a continuation of the accommodative stance to support and nurture growth recovery, while assuring to keep the interest rate low. The RBI has continued to assure markets of the availability of liquidity by announcing GSAP 2.0 worth Rs 1.2 lakh crore in Q2. The growth guidance provided by the RBI for the current fiscal looks optimistic, particularly for Q1FY22, as the economy has already endured a severe loss in the first two months of FY22 due to the second wave of Covid-19. The decision to purchase government securities amounting to Rs 1.2 lakh crore in Q2FY22, which also includes SDLs, will ensure adequate liquidity available in the market and help keep borrowing costs low".

Says **Rajee R, Chief Ratings Officer, Brickwork Ratings**, "In line with BWR expectations, the RBI has maintained its status quo on the policy, while reiterating that this stance will continue as long as necessary to support growth and help an economy battling for revival. Opening a Rs 15,000 crore On-Tap Liquidity Window for the stressed contact-intensive sectors is expected to provide much needed succour. Continuing with its measures to ensure smooth liquidity management and accommodative financial conditions, the RBI announced G-SAP 2.0 of Rs 1.2 lakh crore. The Special Liquidity Facility (SLF) of Rs 16,000 Crore to SIDBI for on-lending and refinancing, and enhancement in the limit for the restructuring of loans by banks to Rs 50 crore from Rs 25 crore are welcome moves to support MSMEs. We expect that the steps announced would increase consumption demand and aid incremental economic activity".

Below are the major announcements made in the "Statement on Developmental and Regulatory Policies" along with MPC statement:

- **On-tap Liquidity Window for Contact-Intensive Sectors:** A separate liquidity window of Rs 15,000 crore is being opened till 31 March 2022 with tenors of up to three years at the repo rate, wherein banks can provide fresh lending support to hotels and restaurants; tourism, including travel agents, tour operators and adventure/heritage facilities; aviation ancillary



services, including ground handling and supply chain; and other services that include private bus operators, car repair services, rent-a-car service providers, event/conference organisers, spa clinics and beauty parlours/saloons.

- **Special Liquidity Facility to SIDBI:** To support the funding requirements of Micro, Small and Medium Enterprises (MSMEs), particularly smaller MSMEs and other businesses including those in credit-deficient and aspirational districts, the RBI extended a special liquidity facility of Rs 16,000 crore to SIDBI for on-lending/refinancing through novel models and structures.
- **Enhancement of the Exposure Thresholds under Resolution Framework 2.0:** To expand the coverage of borrowers under the scheme enhanced the maximum aggregate exposure threshold from Rs 25 crore to Rs 50 crore for MSMEs, non-MSME small businesses and loans to individuals for business purposes.
- **Placement of Margins for Government Securities Transactions on behalf of FPIs:** To encourage FPI investments into the Indian debt market, and to ease operational constraints faced by FPIs and promote the ease of doing business, the RBI permitted Authorized Dealer banks to place margins on behalf of their FPI clients for their transactions in government securities (including State Development Loans and Treasury Bills), within the credit risk management framework of banks.
- **Facilitating Flexibility in Liquidity Management by Issuers of Certificates of Deposit:** To facilitate greater flexibility in liquidity management, the RBI permit Regional Rural Banks (RRBs) to issue Certificates of Deposit (CDs) and decided that all the issuers of CDs will be permitted to buy back their CDs before maturity, subject to certain conditions.
- **Availability of National Automated Clearing House (NACH) on All Days of the Week:** To further enhance customer convenience and leverage the 24x7 availability of RTGS, NACH, which is currently available on bank working days, is proposed to be made available on all days of the week, effective 1 August 2021.



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