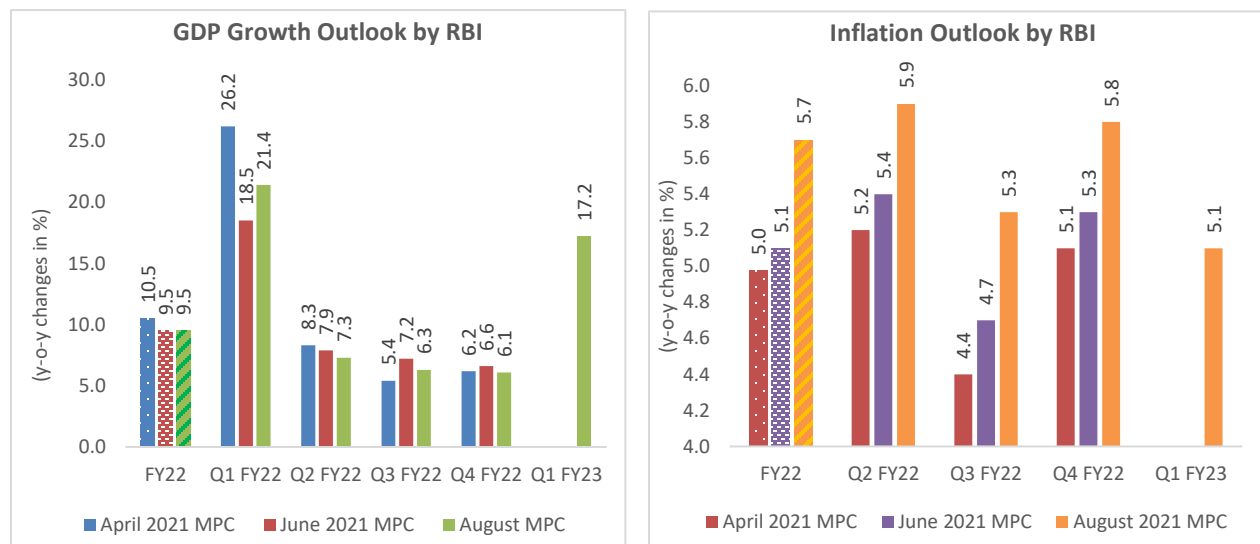


## Brickwork Ratings expects a better clarity on future guidance on growth and inflation outlook by RBI in the next MPC meeting

**Brickwork Ratings, Bengaluru, 6 August 2021:** The Reserve Bank of India's (RBI), Monetary Policy Committee (MPC), after a detailed assessment of growth and inflation outlook in the economy has, in a unanimous decision, continued to hold policy rates. It has also announced the continuation of accommodative stance with 5-1 majority. Both the decisions of the MPC are in line with BWR expectations.

Although the policy outcome is largely in line with market expectations, the policy statement of the MPC was eagerly waited for its forward guidance on the policy stance, measures to manage excess liquidity and assist the growth process. Even though managing inflationary expectations is the primary task of the MPC, its focus continues to remain more towards assisting the government in economic recovery and ensuring liquidity to manage the yield curve to support the government borrowing programme.

### Growth and Inflation Outlook by RBI in its last three MPC statements



Source: RBI's Monetary Policy Statements, BWR Research



Amid the constant threat of looming third wave, RBI continued with the non-conventional measures through announcing regulatory and liquidity-easing measures. Even there, focus in the near term will be on managing the yield curve by ensuring adequate liquidity to keep the costs of the government borrowing in check, besides helping in the recovery process.

**Says Dr Govinda Rao, Chief Economic Advisor, Brickwork Ratings,** "As expected by BWR, the RBI revised upwards the full year (FY22) inflation outlook from 5.1% to 5.7% with similar upward revision in quarterly outlook. The RBI feels that the inflation breaching the upper limit of the band in May and June is transitory, it will be elevated at an average of 5.7% during the year. The continued accommodative stance highlights RBI's priority on sustaining growth recovery. However, as price stability continues to remain a concern, the tone of MPC turned a bit cautious compared to its previous MPC. Along with ensuring providing adequate liquidity to facilitate the government borrowing programme the RBI has announced some measures to rein in the excess liquidity as well. Inflation outlook of 5.7% is certainly a high projection on the back of prevailing uncertainty over crude oil prices and rising cost of import of edible oils which hold key for future price movements. The better monsoon outlook may moderate food inflation though the increase in edible oil prices and transportation cost arising from elevated prices of petroleum products pose risks. With most of the high frequency indicators providing better recovery prospects, the RBI has revised upwards its Q1FY22 GDP estimates by 2.9 percentage points to 21.4%, while keeping the full year projections at 9.5%. Overall, we could expect a better clarity on future guidance on growth and inflation outlook in the October MPC meeting. With the 5-1 vote to continue with the accommodative stance of the MPC, there is some caution though there is no possibility of immediate policy reversal. We expect the RBI to continue with the accommodative stance till the growth recovers".

**Says Rajee R, Chief Ratings Officer, Brickwork Ratings** "RBI's announcements, while largely on expected lines, also pointed to a slightly less dovish tone. The growth supportive policy reiterated RBI's "whatever it takes" mode to ensure preservation of financial stability and sustainable growth to mitigate the impact of COVID on the economy, especially since the underlying conditions around aggregate demand are still weak. The increase in quantum of Variable Rate Reverse Repo (VRRR) indicates the start of policy normalization on the liquidity front. However, while noting that pre-emptive monetary policy response at this stage will kill the nascent recovery, RBI has extended the On-tap TLTRO and MSF relaxation by another three months. Announcement of conducting two more G-SAP auctions in August help in anchoring yield expectations and easing the government borrowing programme. Extension of the timeline by six months to achieve the threshold for certain operational parameters under the RBI Resolution Framework for COVID related stress is a relief. Revision of the inflation forecast to 5.70% reflects the higher inflation scenario."



**Below are the major announcements made in the “Statement on Developmental and Regulatory Policies” along with August MPC statement:**

- **On Tap Targeted Long-Term Repo Operations (TLTRO) Scheme – Extension of Deadline:** Given the nascent and fragile economic recovery, RBI decided to extend the On Tap TLTRO scheme announced on October 9, 2020 for five sectors, further by a period of three months, i.e., till December 31, 2021. The scheme was initially available up to March 31, 2021, was extended by a period of six months, i.e., till September 30, 2021 in the April MPC.
- **Marginal Standing Facility (MSF) - Extension of Relaxation:** This facility, which was initially available up to June 30, 2020 was later extended in phases up to March 31, 2021 and again for a further period of six months till September 30, 2021, providing comfort to banks on their liquidity requirements and also to enable them to meet their Liquidity Coverage Ratio (LCR) requirements. The RBI decided to continue with the MSF relaxation for another period of three months, i.e., up to December 31, 2021.
- **LIBOR Transition - Review of Guidelines:** RBI decided to amend the guidelines related to export credit in foreign currency and restructuring of derivative contracts.
  - Export Credit in Foreign Currency – Benchmark Rate
  - Prudential Norms for Off-balance Sheet Exposures of Banks – Restructuring of Derivative Contracts
- **Deferral of Deadline for Achievement of Financial Parameters under Resolution Framework 1.0:** Recognising the adverse impact of second wave of COVID-19 on revival of businesses, and the difficulty it may pose in meeting the operational parameters, RBI decided to defer the target date for meeting the specified thresholds in respect of the above parameters to October 1, 2022.



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