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# 10.5% growth in 2021-22, will raise CRR in two stages, says RBI

In another “structural reform” intended to improve retail participation in the government securities market and to keep the cost of funds down for the central government, the RBI has proposed to allow small investors direct access to its platform.

In line with strengthening signs of economic recovery, the Reserve Bank of India (RBI) has forecast that real GDP, hit by the Covid pandemic in 2020-21, is expected to grow by 10.5 per cent in 2021-22.

Signalling the unwinding of the surplus liquidity in the system, the RBI has decided to restore the cash reserve ratio — the portion of bank deposits that is kept with RBI — in a non-disruptive manner from 3 per cent to 4 per cent in two stages by May 22 this year.

In another “structural reform” intended to improve retail participation in the government securities market and to keep the cost of funds down for the central government, the RBI has proposed to allow small investors direct access to its platform.

The central government plans to borrow Rs 12 lakh crore in 2021-22. Government securities are debt instruments issued by the government, and are considered to be the safest form of investment.

The RBI has kept the repo rate — the rate at which commercial banks borrow from the central bank— unchanged at 4 per cent. Governor Shaktikanta Das said signs of recovery have strengthened further since the last meeting of the Monetary Policy Committee (MPC) in the first week of December. “High frequency coincident and proximate indicators suggest that the list of normalising sectors is expanding,” he said.

The RBI’s survey points towards improvement in capacity utilisation in the manufacturing sector to 63.3 per cent in Q2 of 2020-21 from 47.3 per cent in the preceding quarter. Consumer confidence is reviving, and business expectations of manufacturing, services, and infrastructure remain upbeat. The movement of goods and people and domestic trading activity are growing at a robust pace, Das said while unveiling the bi-monthly monetary policy on Friday.

According to the central bank, the 10.5 per cent growth in 2021-22 will move in the range of 26.2 to 8.3 per cent in first half and 6.0 per cent in the third quarter. Hit by lockdown and closures of industries, GDP had contracted by 23.9 per cent in the June quarter of 2020-21.

On the growth outlook, the RBI said rural demand was likely to remain resilient on good prospects of agriculture. “Urban demand and demand for contact-intensive services is expected to strengthen with the substantial fall in Covid-19 cases and the spread of vaccination. Consumer confidence is reviving, and business expectations of manufacturing, services and infrastructure remain upbeat,” the RBI said.

State Bank of India chairman Dinesh Kumar Khara said, “the upward revision of the FY 21 GDP growth rate to (-)7.5 per cent emphasises that the worst is behind us, though we must remain watchful.”

The outlook on growth has improved significantly, with positive growth impulses becoming more broad-based, and the rollout of the vaccination programme in the country auguring well for the end of the pandemic, the RBI said. Given that inflation has returned within the tolerance band, the MPC judged that the need of the hour is to continue to support growth, assuage the impact of Covid, and return the economy to a higher growth trajectory, Das said.

M Govinda Rao, Chief Economic Advisor, Brickwork Ratings, said, “growth outlook has improved significantly, but inflationary concerns remain.”

Union Bank MD and CEO Rajkiran Rai said policy narrations are pro-growth, with a subtle signal on hardening of prices in the second half of FY 22 in line with strengthening aggregate demand. “The RBI reposed confidence in the buoyancy in economic activities across segments, and the thrust given in the budget for higher capital expenditure leading to higher economic growth,” Rai said.

“Coming after a growth-oriented budget, the monetary policy stance augurs well for economic growth. Expect rates to be stable with an upward bias depending on inflation trajectory,” said Shanti Ekambaram, Group President – Consumer Banking, Kotak Mahindra Bank.

The preliminary estimate of GDP for 2020-21 released by the National Statistical Office (NSO) on January 7, 2021 has turned out to be very close to the MPC’s December projection, the RBI said.?