

RBI Monetary Policy Update: On-tap TLTRO Extended to Tide Over Covid. Know More

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The Reserve Bank of India (RBI) had announced an extension on the self-life of the 'on tap' Targeted Long Term Repo Operation (TLTRO). The extension has been granted till December 2021. The TLTRO scheme was introduced in October of 2020 in an attempt to inject liquidity into specific sectors of the economy that were suffering the most. In light of the Covid-19 pandemic and the ensuing lockdown, many sectors of the economy were hit badly. As a result, they needed a scheme that could provide some relief amidst the pandemic. The RBI answered with the TLTRO as a way to ensure that the affected sectors received enough liquidity to thrive.

The Monetary Policy Committee (MPC) expressed that the third wave of Covid-19 will be more manageable as long as such steps and preventative measures are taken. The committee made clear that it expects the economy to gain momentum in the near future, even with the third wave. This prediction was made on the basis of a higher number of vaccinations, continued large policy support, buoyant exports and other changes according to Governor Shaktikanta Das. The MPC stated that the extension of the TLTRO would provide the buffer needed and offer the necessary liquidity and support growth to the sectors going forward.

Speaking on the matter of the extension of the TLTRO scheme and the policy stance, Nish Bhatt, the Founder and CEO of Millwood Kane International said, "As expected, the MPC voted to keep the key rates and the policy stance unchanged. The decision to extend the on-tap TLTRO scheme once again till December will maintain ample liquidity and support growth. RBI's view of current high inflation being largely transitory in nature and its focus on growth is a big positive. The economy is showing signs of revival, it needs policy support."

Bhatt then added, "RBI's estimate of inflation softening post-Q2 indicates that the current policy may continue for few quarters, with a beginning of normalization by end of FY22. The policy has been largely growth-oriented, supporting easy liquidity. It will help attain the high growth as estimated by the central bank – 9.5% & 17.2% for FY22 and FY23 respectively."

When the scheme was first brought in, the scheme came in with funds of Rs 1 lakh crore. It was targeted in such a way that it would enable banks across the country to provide the aforementioned liquidity support to the ailing sectors. The affected sectors that came under the ambit of the scheme include agriculture, retail, drugs and pharmaceuticals, healthcare and MSMEs.

Any bank that was eligible under the Liquidity Adjustment Facility (LAF) could participate in the scheme. The sectors receiving the liquidity got them in the form of corporate bonds, commercial paper and non-convertible debentures.

Speaking on the RBI's announcement, Rajee R, the Chief Ratings Officer of Brickwork Ratings said, "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 the 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 the quantum of 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."

She went on to add, "Announcement of conducting two more GSAP 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."