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RBI MONETARY POLICY ON EXPECTED LINES

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RBI's August 04 - 06, 2021 Policy Highlights

Post COVID 19, this is a difficult time for the Indian economy. The Government of India's stimulus packages and the RBI's accommodative policies have, within their constraints, attempted to mitigate the hardships caused to the persons/sectors. The retail inflation has been breaching the RBI's comfort zone for some time but there has been the overriding concern of rehabilitating the Indian economy and enhancing growth. The macroeconomic situation is characterised by reduced downside growth risks, CPI breaching 6 per cent-the RBI's comfort zone- in May and June and reduced pandemic concerns. In line with our expectations of a status quo policy on August 6, 2021, i.e., unchanged policy rates and continued accommodative stance, the RBI's Policy was largely on expected lines.

The RBI kept the policy repo rate unchanged at 4 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target, going forward. The marginal standing facility (MSF) rate and the bank rate remain unchanged at 4.25 per cent. The reverse repo rate also remained unchanged at 3.35 per cent. The RBI raised inflation forecast by 60 basis points (bps) to 5.7 per cent during 2021-22. CPI inflation for Q1:2022-23 is projected at 5.1 per cent.

The Governor highlighted "buoyed by the renewed vigour of capital inflows and the Reserve Bank's purchase of government securities in the secondary market, total absorption through reverse repos surged from a daily average of ₹5.7 lakh crore in June to ₹6.8 lakh crore in July 2021 and further to ₹8.5 lakh crore in August 2021 so far (up to August 4)". Important liquidity measures include Variable Rate Reverse Repo (VRRR) auctions of "₹2.5 lakh crore on August 13, 2021; ₹3.0 lakh crore on August 27, 2021; ₹3.5 lakh crore on September 9, 2021; and ₹4.0 lakh crore on September 24, 2021". In terms of the Reserve Bank's secondary market G-sec acquisition programme (G-SAP), "two more auctions of ₹25,000 crore each on August 12 and August 26, 2021" would be conducted under G-SAP 2.0.

On-tap TLTRO Scheme: Extension of Deadline

The scope of the on-tap TLTRO scheme, initially announced on October 9, 2020 for five sectors, was further extended to stressed sectors identified by the Kamath Committee in December 2020 and bank lending to NBFCs in February 2021. The operating period of the scheme was also extended till September 30, 2021. This scheme has now been extended till December 31, 2021.

Marginal Standing Facility (MSF): Extension in Period of Relaxation

On March 27, 2020, banks were allowed to avail of funds under the marginal standing facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of net demand and time liabilities (NDTL), i.e., cumulatively up to 3 per cent of NDTL. To provide comfort to banks on their liquidity requirements, including meeting their Liquidity Coverage Ratio (LCR) requirement, this relaxation which is currently available till September 30, 2021 has been extended up to December 31, 2021. This dispensation provides increased access to funds to the extent of ₹1.62 lakh crore and qualifies as high quality liquid assets (HQLA) for the LCR.

LIBOR Transition-Review of Guidelines – Export Credit in Foreign Currency and Restructuring of Derivative Contracts

In an attempt to facilitate the transition from London Interbank Offered Rate (LIBOR), the RBI would amend the guidelines related to (i) export credit in foreign currency and (ii) restructuring of derivative contracts. Banks will be permitted to extend export credit in foreign currency using any other widely accepted Alternative Reference Rate in the currency concerned. Since the change in reference rate from LIBOR is a "force majeure" event, banks have also been advised that change in reference rate from LIBOR/ LIBOR related benchmarks to an Alternative Reference Rate will not be treated as restructuring.

Deferral of Deadline for Achievement of Financial Parameters under Resolution Framework 1.0

The resolution plans implemented under the Resolution Framework for COVID- 19 related stress announced on August 6, 2020 require sector specific thresholds to be met in respect of certain financial parameters. Of these parameters, the thresholds in respect of four parameters relate to operational performance of the borrowing entities, viz. Total Debt to EBIDTA ratio, Current Ratio, Debt Service Coverage Ratio and Average Debt Service Coverage Ratio. These ratios are required to be met by March 31, 2022. The target date for meeting the specified thresholds in respect of the above four parameters has been deferred to October 1, 2022. With evolving growth inflation dynamics, the RBI held the rates steady and continued with its accommodative stance. A stable policy is required in uncertain times. Hence this is a logical and well-conceived Policy.