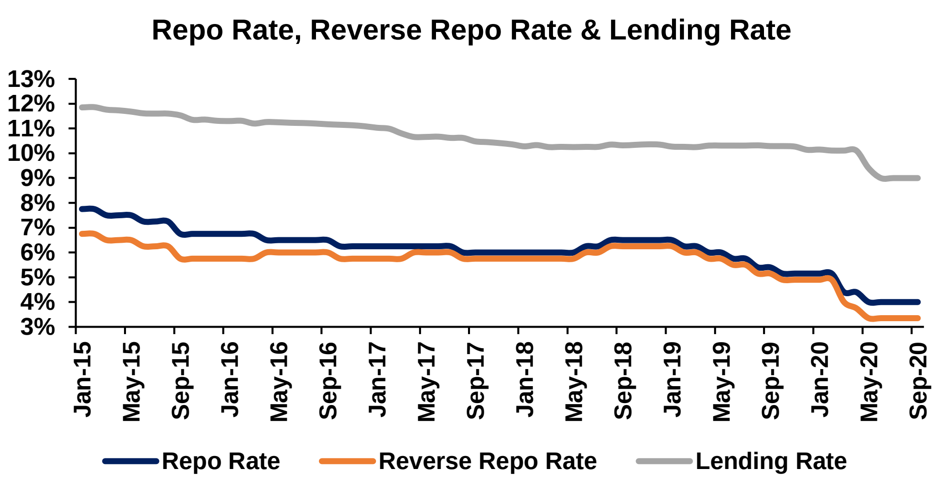
RBI Monetary Policy – 9th October 2020

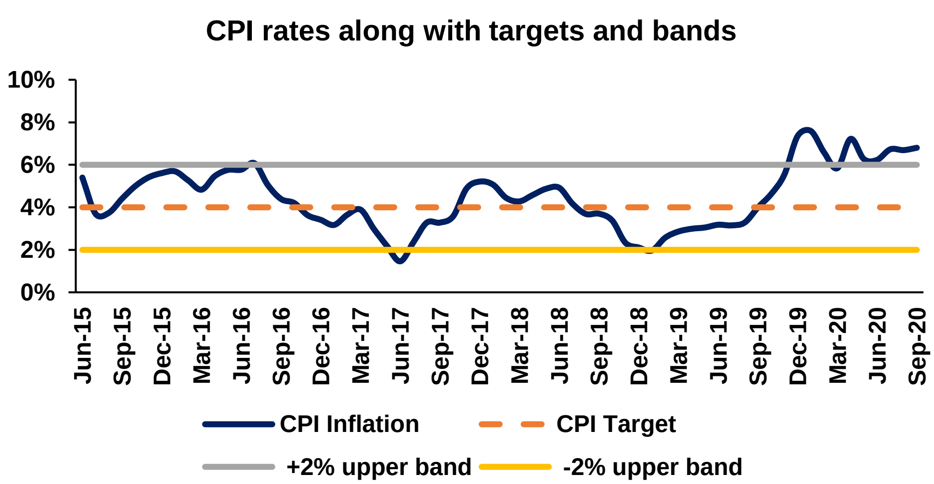
Since the MPC meet in Aug 2020, global economic activity continue to remained fragile and the downside risks have risen with the surge in COIVD cases in many countries. In line with global trends, India's FY21 GDP growth is expected to remain in the negative territory. In an effort to cope up with the current and evolving macroeconomic situation, RBI has decided to maintain its policy rates. It has also sounded off a possible rate cut in the near future, if there are no signs of improvement.

Following are the salient features as proposed:

1. **Repo rate, remains unchanged at 4% and the RBI continues with its accommodative stance given**
   - **the lack of growth,**
   - **the need to mitigate the impact of COVID-19, while ensuring that**
   - **inflation remains within the target going forward.**



Reverse repo rate also stands unchanged at 3.35%. Accordingly, the marginal standing facility rate and the Bank Rate remained constant at 4.25%.



2. **Liquidity Measures:**

    - **On tap TLTRO:** RBI introduced on-tap targeted long-term repo operations (TLTRO) for banks to borrow up to Rs.1 trillion (with tenors of upto 3 years) at a floating rate linked to the policy repo rate and invest in corporate bonds and other debt instruments of certain sectors. Banks can also use these funds to provide loans to entities from these sectors, which is expected to stimulate credit growth.
    - **SLR held to maturity (HTM) limit extended:** RBI enhanced HTM limit from 19.5% to 22.0% in Sept 2020, up to 31st Mar 2021. To give more certainity to markets, RBI extended the limit to 31st Mar 2022 for securities acquired between September 1, 2020, and March 31, 2021. It is expected that banks will be able to plan their investments in SLR securities in an optimal manner.
    - **Open market operations (OMO):** RBI has decided to conduct OMO in SDL as a special case in FY21. As part of this, RBI will conduct OMO worth Rs 20,000 cr next week

3. **Support to Export:** In order to make EPDMS more export friendly, RBI is planning to discontinue the automatic caution listing of those shipping bills which remained outstanding for more than 2 years. The overall guidelines will be issued in the next few days.

4. **Regulatory Measures:**

    - **Credit to small businesses:** RBI is planning to enhance the threshold limit of the retail portfolio of banks to Rs 7.5 cr (from the earlier limit of Rs.5.0 cr), which is expected to improve the credit flow to small businesses.
    - **Rationalization of risk weight in housing loans:** RBI has decided to rationalize the risk weights on all new housing loans sanctioned up to 31st Mar 2022. According to it, all housing loans will attract a risk weight of 35% where LTV is less than or equal to 80% and a risk weight of 50% where LTV is more than 80% but less than or equal to 90%.

5. **Review of Priority Sector Lending Guidelines:** The Priority Sector Lending (PSL) guidelines have been reviewed and RBI announced a ‘Co-Lending Model’ with an aim to improve the credit flow to the unserved and underserved sectors of the economy. All NBFCs (including Housing Finance Co) will be allowed to collaborate with banks to undertake PSL. The detailed guidelines will be issued by the end of Oct 2020.

6. **Round the clock availability of RTGS:** In order to facilitate real time payments for businesses, RBI announced that RTGS (Real Time Gross Settlement) will become 24x7x365 from Dec 2020. It is currently available from 7:00 am to 6:00 pm on working days. This move will also integrate the Indian financial marke with the global market and facilitate India’s efforts to provide wider payment flexibility to business.

7. **Certificate of authorization to Payment System Operators (PSO):** RBI has decided to grant authorisation for all PSOs (new applicants as well as existing PSOs) on a perpetual basis. Currently the authorization is limited up to 5 years. This is expected to reduce compliance cost of PSOs and improve investment activities.

Outlook & Implications

- Bumper Rabi Crop and expected Kharif sowing are anticipated to keep food prices comfortable, which portends well for lower food inflation. In addition, non food inflation is also expected to remain under control due to stable international crude oil prices on account of a weak demand outlook. As a result, CPI inflation is projected at 5.4-4.5% for H2FY21 and 4.3% for Q1FY22.
- The recovery in the rural economy is expected to mitigate the lagging urban demand and subdued private investments. Therefore the overall improvement in the economy is estimated to be gradual. The real GDP growth in FY21 is expected to be at negative 9.5%.
- Taking into account current inflation levels, which has been above the tolerance level of 6% in past few months, we are not expecting any significant rate cut in the short to medium term.

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