



## RBI MONETARY POLICY - APRIL 2021

### Announcement

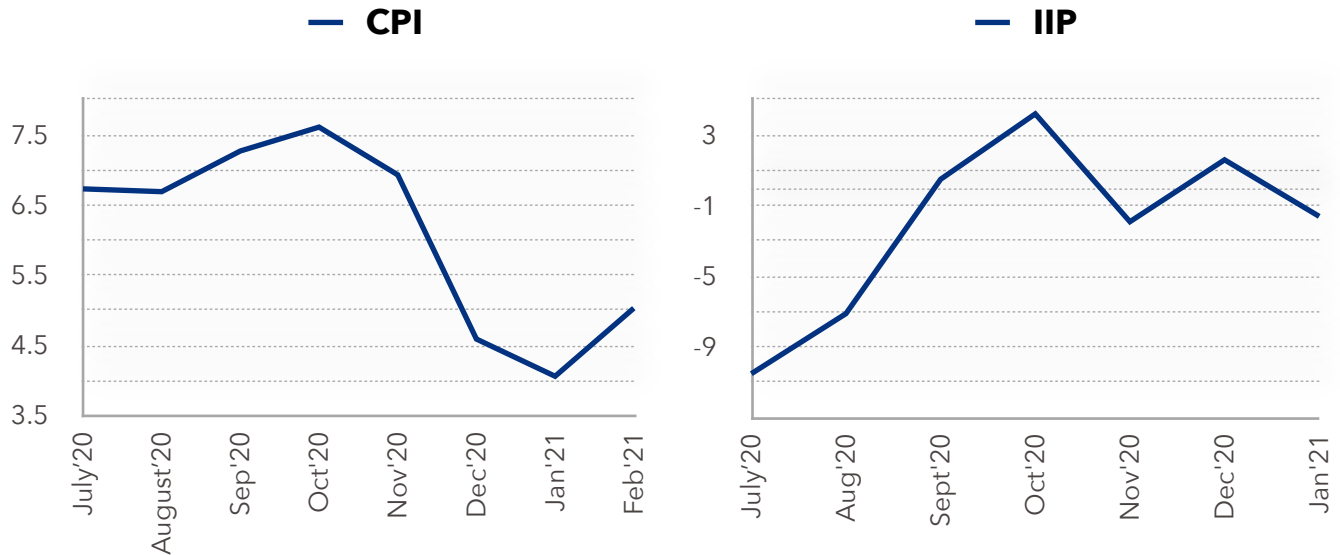
- Repo Rate: Unchanged at 4.00% with an accommodative stance.
- Reverse Repo Rate: 3.35%
- CRR 3.50%

### RBI's Assessment

- On the global front, high frequency indicators suggest that a gradual but uneven recovery may be forming. Inflation remains benign in major advanced economies (AEs), although highly accommodative monetary policies and large fiscal stimuli have added to concerns around market-based indicators of inflation expectations, unsettling bond markets globally. In a few EMEs, however, inflation is ruling above targets, primarily driven by firming global commodity prices.
- High frequency indicators suggest that gains in manufacturing and services activity in Q3:2020-21 extended into Q4. PMI manufacturing at 55.4 in March 2021 remained in expansion zone, but lower than its level in February. IIP slipped into marginal contraction in January 2021, dragged down by manufacturing and mining. Core industries also contracted in February. The resilience of agriculture is evident from foodgrains and horticulture production for 2020-21. While fuel inflation pressures eased somewhat in February, core inflation registered a generalised hardening and increased by 50 basis points to touch 6 per cent. System liquidity remained in large surplus in February and March 2021 with average daily net liquidity absorption of ₹5.9 lakh crore. Money supply (M3) grew by 11.8% as on March 26, 2021 with credit growth at 5.6%. India's foreign exchange reserves increased by US\$ 99.2 billion during 2020-21 to US\$ 577.0 billion at end-March 2021.

### Highlights

- TLTRO on-tap scheme has been extended by 6 months to Sep 30, 2021
- Setting up panel for reviewing working of ARCs.
- Loan limit under priority sector lending to agriculture sector has been increased to Rs 60 lakh from Rs 50 lakh.
- Rs 1-lakh crore G sec Acquisition Program 1.0
- NEFT, RGTS to be extended beyond banks.
- Announcement of additional Rs 500 billion liquidity facility to all India financial institutions like NABARD (25,000 Cr), NHB (10,000 Cr) and SIDBI (15,000 Cr).
- RBI raises Paytm, wallet accounts limit to Rs 2 lakh; allows RTGS, NEFT connectivity to payment operators. Membership to RTGS, NEFT extended to PPI issuers, white label ATM.
- Expanding liquidity with increase in 'ways and means advances' for States and UTs by 46% to Rs.47,100 crores.



### Outlook: In-House Assessment

RBI has been watchful and has continued to largely focus on growth, market liquidity and is striving to keep bond yields low for long term sustainability. The accommodative stance reduces the likelihood of further rate cuts in FY21-22.

Going forward, we expect the inflation trajectory to have both-upside and downside pressures. Cereal prices are expected to soften due to bumper woodgrain production in 2020-21. The reduction of excise duties and cesses and state level taxes could provide some relief to consumers amid volatile international crude prices. **However, downside risks include rising global commodity prices and food inflation.**

Expectations of good southwest monsoon season will drive down inflation. **However, pent up demand** on the back of normalisation of economic activity as the vaccination drive gains traction and as capacity utilisation rises (from 63.3 per cent in Q2 to 66.6 per cent in Q3:2020-21) may moderate inflation.



Sources: Reserve Bank of India, Reuters.

**LKP SECURITIES LTD.**, 203, Embassy Centre, Nariman Point, Mumbai- 400021

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For any queries contact – LKP Securities Ltd. Ph: (91-22) 66306555 Fax: (91-22) 2284 2415

E Mail: FixedIncomeResearch@lkpsec.com

Visit our website – <http://www.lkpsec.com/>