



RBI MONETARY POLICY - DECEMBER 2020

Announcement

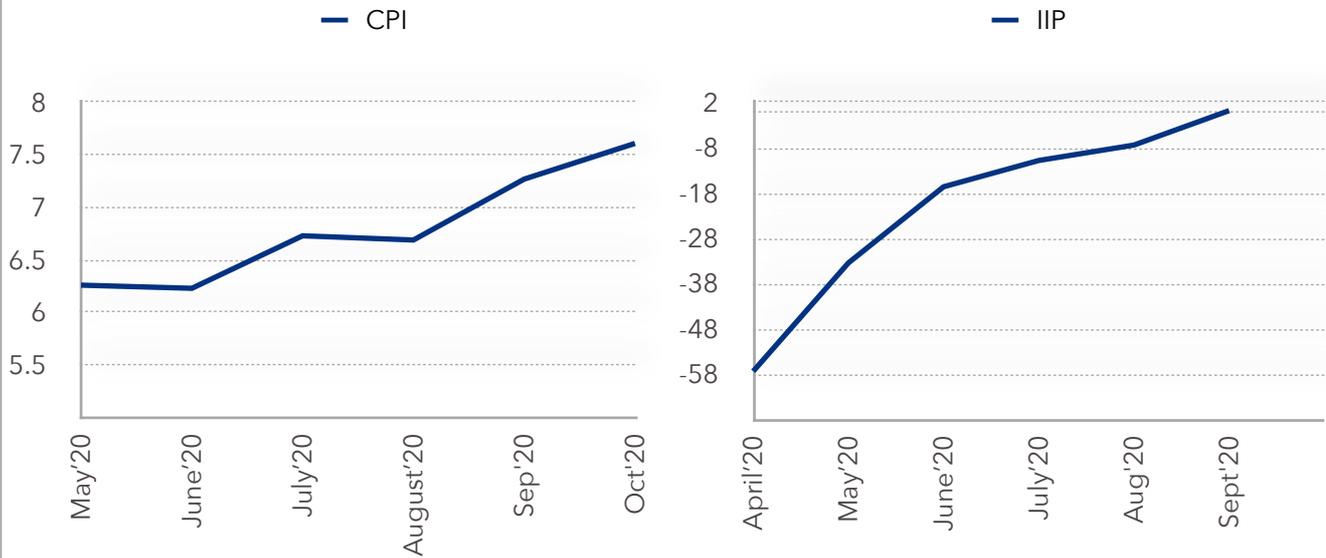
- Repo Rate: Unchanged at 4.00%
- Reverse Repo Rate: 3.35%
- Marginal Standing Facility: 4.25%
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of Covid-19 on the economy.

RBI's Assessment

- Global financial markets remain buoyant, supported by highly accommodative monetary policies and positive news on the vaccine. World trade recorded a rebound in Q3 as lockdowns were eased, but it is likely to slow in Q4 as pent-up demand is exhausted, inventory restocking is completed, and trade-related uncertainty is rising with the second wave.
- In Q3:2020-21, high frequency indicators point to a recovery gaining traction, with double digit growth in passenger vehicles and motorcycle sales, railway freight traffic, and electricity consumption in October, although there was moderation in some of these indicators in November. Riding on the favourable monsoon, the outlook for agriculture remains bright.
- CPI inflation rose sharply to 7.3 per cent in September and further to 7.6 per cent in October 2020, with some evidence that price pressures are spreading. Core inflation, i.e., CPI excluding food and fuel, also picked up from 5.4 per cent in September to 5.8 per cent in October.
- Domestic financial conditions remained easy in October-November and systemic liquidity continued to be in large surplus.

Other Announcements

- OMO purchases and operation twists to be used from time to time.
- Extended liquidity support to 26 stressed sectors
- Upward revision in GDP growth for FY21 to -7.5% (from -9.5%)



Outlook: In-House Assessment

As per our in-house expectations, RBI MPC left the repo rate unchanged with an accommodative stance. We do not expect rate cuts until retail inflation cools off and falls within RBI's target range and as we gain a clearer perspective on COVID-19 vaccinations. A better than expected GDP can give RBI room for rate cuts in its April policy meeting.

Food inflation will see some relief in the winter months as abundant rainfall this year increased Rabi sowing area. The announcement of proactive supply side management strategies will help in capping inflation. However, it is expected to remain elevated in the longer term depending on supply side inflation panning out in the next few months.

We can expect comfortable liquidity in the banking system as CRR has been left unchanged.



Sources: Reserve Bank of India, Reuters.

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