



RBI MONETARY POLICY - JUNE 2021

Announcement

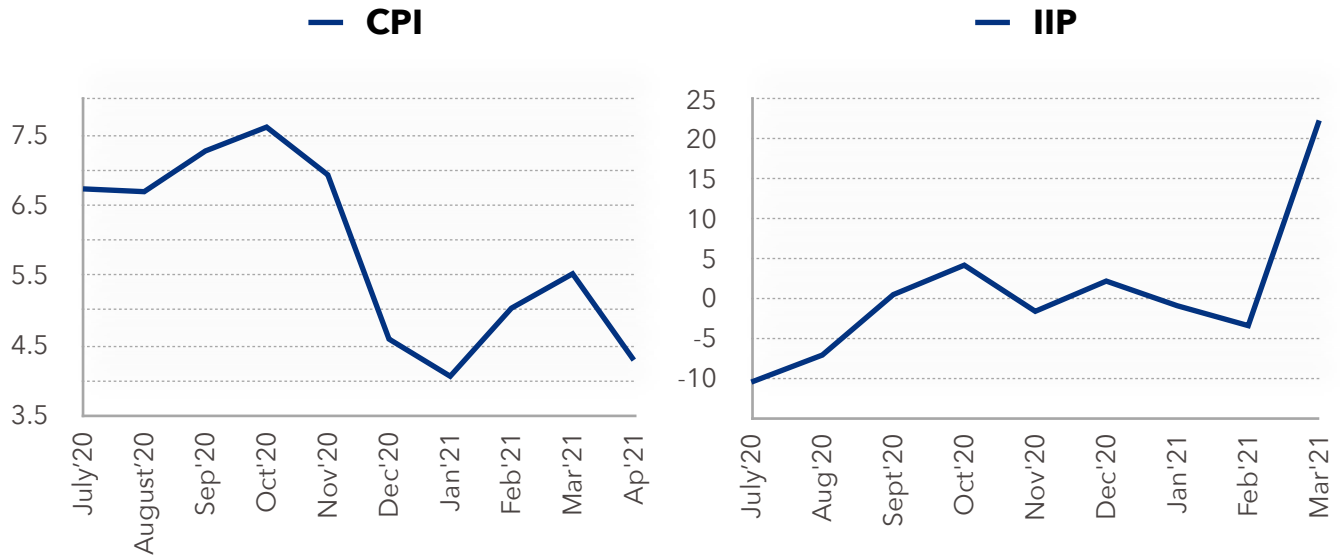
- Repo Rate: Unchanged at 4.00% with an accommodative stance.
- Reverse Repo Rate: 3.35%
- CRR 3.50%

RBI's Assessment

- The global economic recovery has been gaining momentum, driven mainly by major advanced economies (AEs) and powered by massive vaccination programmes and stimulus packages. Activity remains uneven in major emerging market economies (EMEs), with downside risks from renewed waves of infections due to contagious mutants of the virus and the relatively slow progress in vaccination. CPI inflation is firming up in most AEs, driven by release of pent-up demand, elevated input prices and unfavourable base effects. Inflation in major EMEs has been generally close to or above official targets in recent months, pushed up by the sustained rise in global food and commodity prices. Global financial conditions remain benign.
- Turning to the domestic economy, provisional estimates of national income released by the National Statistical Office (NSO) on May 31, 2021 placed India's real gross domestic product (GDP) contraction at 7.3 per cent for 2020-21, with GDP growth in Q4 at 1.6 per cent year-on-year (y-o-y). On June 1, the India Meteorological Department (IMD) has forecast a normal south-west monsoon, with rainfall at 101 per cent of the long period average (LPA). This augurs well for agriculture. With the rise in infections in rural areas, however, indicators of rural demand – tractor sales and two-wheeler sales – posted sequential declines during April.
- Other high-frequency indicators – electricity generation; railway freight traffic; port cargo; steel consumption; cement production; and toll collections – recorded sequential moderation during April-May 2021, reflecting the impact of restrictions and localised lockdowns imposed by states with exemptions for specific activities. The manufacturing purchasing managers' index (PMI) remained in expansion in May although it moderated to 50.8 from 55.5 in April due to a slowdown in output and new orders. The services PMI, which was 54.0 in April, entered into contraction (46.4) in May, after seven months of sustained expansion.
- System liquidity remained in large surplus in April and May 2021, with average daily net absorption under the liquidity adjustment facility (LAF) amounting to ₹5.2 lakh crore. Reserve money (adjusted for the first-round impact of the change in the cash reserve ratio) expanded by 12.4 per cent (y-o-y) on May 28, 2021, driven by currency demand.

Announcements

- Another operation under G-SAP 1.0 for Rs 40,000 cr on 17-Jun
- Undertake G-SAP 2.0 of Rs 1.2 lakh cr in Q2
- Separate liquidity window of Rs 15,000 cr for contact intensive sectors till March.
- Extension of special liquidity facility of Rs 16,000 cr to SIDBI for on-lending & refinancing
- Enhancement of exposure threshold under resolution framework 2.0 - increase in loan limit to Rs 50 Cr from Rs 25 Cr



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. We can expect policy normalisation once growth recovers amid a pick up in the vaccination drive.

Markets were disappointed with the GSAP amount announced. On the flip side, the introduction of GSAP in SDL was applauded by the participants as it brings comfort to SDL spreads.

We expect CPI to range between 4.20% to 5% in the next Quarter. Occasional lockdown restrictions coupled with volatile global commodity prices are expected to stay elevated. The low base effect will however cap elevation. Going forward, if lockdowns persist, services inflation will rise. **Expectations of good monsoon/bumper harvest will help drive down inflation in the short term.**



Sources: Reserve Bank of India, Reuters.

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