RBI Policy – April 2021

RBI Monetary Policy

Repo Rate At 4.0%	Unchanged
Reverse Repo Rate At 3.5%	Unchanged
MSF Bank Rate At 4.25%	Unchanged
Policy Stance Accommodative	Maintained

RBI on Growth, Inflation

FY22 Real GDP Growth	10.5% - FY22 22.6% -Q1FY22 8.3% - Q2FY22 6% - Q3FY22 6.2% -Q4FY22
Inflation Outlook	5% v/s 5.2% - Q4FY21 5.2% - 1HFY22 4.4 v/s 4.3% - Q3FY22 5.1% - Q4FY22

Accommodative Stance – Continues

MPC has kept the ***policy rate unchanged*** at 4% and voted unanimously to maintain the status quo with an accommodative stance. The reverse repo rate remained unchanged at 3.5%, the marginal standing facility and bank rate kept unchanged at 4.25%. As expected, the RBI maintained status quo amid rising COVID-19 cases in the country. The RBI had kept the key interest rate (repo) unchanged for the fifth consecutive meeting. ***On the back of the COVID-19 pandemic, the central bank has cut policy rates to 4% through two rate cuts of 75 bps in March'20 and 40 bps in May'20.***

Growth – The MPC has retained the Gross Domestic Product (GDP) growth of 10.5% for the FY22 with the global growth gradually recovering from the pandemic-triggered slowdown. As per the RBI poll result done in Mar'20, firms engaged in manufacturing, services and infrastructure are optimistic of pickup in demand and expansion in business activity in FY22.The RBI stated that the country is much better prepared to face challenges but uncertain remains due to 2nd wave of COVID-19.

Inflation – The RBI stated that the Consumer Price Index (CPI) inflation trajectory is likely to be subject to both upside and downside pressures. Food inflation will depend on the progress of the south-west monsoon and taxes on petroleum products. It estimates that the retail inflation for ***Q1 and Q2 FY22 to be at 5.2%***. CPI inflation for ***Q3 and Q4 FY22 is being seen at 4.4% and 5.1%***, respectively. The CPI-based inflation has been inching up in the recent months primarily triggered by food prices. The CPI or retail inflation rate for the month of Feb'21 surged to 5.03% triggered by rise in food inflation and fuel.

Liquidity Measures

TLTRO on Tap Scheme – Extension of Deadline – The RBI had announced the TLTRO on Tap Scheme on 09 October 2020 which was available up to 31 March 2021. In addition to the five sectors announced under the scheme on 21 October 2020, 26 stressed sectors identified by the Kamath Committee were also brought within the ambit of sectors eligible under on tap TLTRO on 04 December 2020 and bank lending to NBFCs on 05 February 2021. Liquidity availed by banks under the scheme is to be deployed in corporate bonds, commercial paper, and non-convertible debentures issued by entities in these sectors; it can also be used to extend bank loans and advances to these sectors. Investments made by banks under this facility can be classified as held to maturity (HTM) even above the 25% of total investment permitted to be included in the HTM portfolio. All exposures under this facility are exempted from reckoning under the large exposure framework (LEF). On a review, it has now been decided to extend the TLTRO on Tap Scheme by a period of six months, i.e., ***till 30 September 2021***.

Additional ₹ 500bn liquidity facility to all India financial institutions like NABARD, NHB and SIDBI – To support the continued flow of credit to the real economy in the aftermath of the COVID-19 pandemic, special refinance facilities for a total amount of ₹75,000crs were provided during Apr-Aug'20 to all India financial institutions (AIFIs) – the National Bank for Agriculture and Rural Development (NABARD); the Small Industries Development Bank of India (SIDBI); the National Housing Bank (NHB); and the EXIM Bank. These facilities were available for one year. NABARD, SIDBI and NHB will repay the facilities extended to them during Apr-May'20 it has ***been decided to extend fresh support of ₹ 50,000crs to the AIFIs*** for new lending in FY22. Accordingly, NABARD will be provided a special liquidity facility (SLF) of ₹25,000crs for a period of one year to support agriculture and allied activities, the rural non-farm sector and nonbanking financial companies-micro finance institutions (NBFC-MFIs). SLF of ₹10,000crs will be extended to NHB for one year to support the housing sector. To meet the funding requirements of micro, small and medium enterprises (MSMEs), SIDBI will be sanctioned ₹15,000crs under this facility for a period of one year. All these three facilities will be available at the prevailing policy repo rate.

Regulatory Measures

Enhancement of limit of maximum balance per customer at end of the day from ₹1 lakh to ₹2 lakh for Payments Banks – Based on a review of the performance of payments banks and to encourage their efforts for financial inclusion and to expand their ability to cater to the needs of their customers, including MSMEs, small traders and merchants, it has been decided to enhance the limit of maximum balance at end of the day from ₹1 lakh to ₹2 lakh per individual customer.

Asset Reconstruction Companies – Constitution of a Committee – As per RBI while ARCs have grown in number and size, their potential for resolving stressed assets is yet to be realised fully. It is, therefore, proposed to constitute a Committee to undertake a comprehensive review of the working of ARCs in the financial sector ecosystem and recommend suitable measures for enabling such entities to meet the growing requirements of the financial sector. Details of the constitution of the committee and its terms of reference will be announced separately.

Permitting banks to on-lend through NBFCs – Extension of deadline – In Aug'19 it was to allow banks to classify lending to registered NBFCs (other than MFIs) as ***Priority Sector Lending (PSL) up to 5% of a bank's total PSL, for on-lending to Agriculture/MSME/Housing till 31March 2020 which was later extended up to 31March 2021***. An amount of around ₹37,000crs has been lent by banks to NBFCs for on-lending to the specified priority sectors by Dec'20 to ensure continued availability of credit to these sectors to aid faster economic recovery, it has been decided to extend the PSL classification for lending by banks to NBFCs for 'on-lending' to the above sectors for six months, up to ***30 September 2021***.

Priority Sector Lending (PSL) guidelines – Enhancement of Loan limit against eNWR/NWR – To encourage farm credit to individual farmers against pledge/hypothecation of agricultural produce and leverage the inherent safety of Negotiable Warehouse Receipts (NWRs)/electronic-NWRs (eNWRs) issued by the warehouses registered and regulated by Warehousing Development and Regulatory Authority (WDRA) it has been decided ***to enhance the loan limit from ₹50 lakh to ₹75 lakh per borrower***. The Priority Sector loan limit backed by other Warehouse Receipts will continue to be ₹50 lakh per borrower.

Debt Management

An OMO calendar gives much-needed clarity to the bond market which is staring at a ₹12tn government borrowing in FY22 – RBI announced a secondary market ***Government Security Acquisition Programme (GSAP 1.0)*** wherein the central bank will purchase government bonds worth ₹1tn from the secondary market in the first quarter of this fiscal. ***The first purchase of ₹25,000crs will take place on 15 April 2021.*** With this announcement, RBI has satisfied a long-standing demand of the bond market of an open market operation (OMO) calendar. So far, RBI had been announcing standalone and special OMOs to bring down yields, refusing to divulge details of a calendar in advance. This move of announcing an OMO calendar will give much-needed clarity to the bond market which is staring at a ***government borrowing programme of ₹12tn in FY22***. It will be done to ensure orderly evolution of the yield curve which could help in the cool off in bond yields and support the government's market borrowing program.

Continuation of the enhanced interim WMA limit for further six months – An Advisory Committee (under Mr. Sudhir Shrivastava) was constituted by the Reserve Bank in Aug'19 to review the Ways and Means Advances (WMA) limits for State Governments/UTs and examine other related issues. The Committee has recommended an overall revised limit of ₹47,010crs for all states, as against the current limit of ₹32,225crs (fixed in Feb'16), representing an increase of about 46%. The committee also recommended the continuation of the ***enhanced interim WMA limit of ₹ 51,560crs*** (60% increase in the current limits allowed by the RBI during the last fiscal to help states/UTs to tide over the difficulties faced by them during the pandemic) for a further period of six months i.e., till 30 September 2021.

Payment Measures

NEFT and RGTS to be extended beyond banks – RBI has announced that the centralised payment systems like NEFT and RGTS to be extended beyond banks. Moreover, interoperability among full-KYC PPIs has been made mandatory along with cash withdrawal by full-KYC PPIs issued by non-bank users has been allowed.

Interoperability of Prepaid Payment Instruments (PPIs), and Increase in account limit to ₹ 2 lakh – To promote optimal utilisation of payment instruments (like cards, wallets etc.), and given the constraint of scarce acceptance infrastructure (like PoS devices, ATMs, QR codes, bill-payment touch points, etc.), Reserve Bank of India has been stressing on the benefits of interoperability amongst the issuing and acquiring entities alike, banks or non-banks The Master Direction on Issuance and Operation of PPIs dated 11 October 2017 laid down a road-map for a phased implementation of interoperability amongst PPIs issued by banks and non-banks. Thereafter, the guidelines issued in Oct'18 enabled interoperability, albeit on a voluntary basis, insofar as the PPIs were full-KYC (they met all Know Your Customer requirements). Despite a passage of two years, migration towards full-KYC PPIs, and therefore interoperability, is not significant. It is, therefore, proposed to make interoperability mandatory for full-KYC PPIs and for all acceptance infrastructure. To incentivise the migration of PPIs to full-KYC, it is being proposed to increase the limit of the outstanding balance in such PPIs from the current level of ₹1 lakh to ₹2 lakh.

Other Measures

Relaxation in the period of parking of External Commercial Borrowing (ECB) proceeds in term deposits – Under the current ECB framework, ECB borrowers are allowed to place ECB proceeds in term deposits with AD Category-I banks in India for a maximum period of 12 months. Given the difficulty faced by borrowers in utilizing already drawn down ECBs due to Covid-19 pandemic induced lockdown and restrictions, it has been decided to relax the above stipulation as a one-time measure, with a view to provide relief. Accordingly, unutilised ECB proceeds drawn down on or before 01 March 2020 ***can be parked in term deposits with AD Category-I banks in India prospectively up to 01 March 2022***.

Financial Inclusion Index – To measure the extent of financial inclusion in the country, the Reserve Bank will construct and periodically publish a "Financial Inclusion Index" (FI Index). The FI Index would be based on multiple parameters and shall reflect the broadening and deepening of financial inclusion in the country. To begin with, the FI Index will be published annually in July for the financial year ending previous March

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