RBI Monetary Policy Statement

June 2021

We appreciate the Monetary Policy Committee Members of the Reserve Bank of India (RBI) under the Chairmanship of Shri Shaktikanta Das, Hon'ble Governor, Reserve Bank of India, for an announcement on MPC on 04th June 2021 by keeping in the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

The RBI has ensured an adequate level of liquidity in the system and provided targeted liquidity to stressed entities. It will now focus on turning from systemic liquidity to its equitable distribution and continue with its proactive and pre-emptive approach to return the economy to growth.

We are pleased to share that today's announcements included some of the key recommendations made by the ASSOCHAM Economic & Financial Covid Task Force and Shadow Monetary Policy Committee. The support announced for the struggling MSMEs and worst impacted close-contact sector of hospitality would go a long way in helping the Indian economy get back on track.

As per the RBI, as the second wave recedes, the resilience of agriculture, forecast of monsoon, and the gathering of momentum of the global economy could act as tailwinds for the domestic economy.

While the second wave has hit the economy, the economic damage is expected to be limited due to lower restrictions. As global demand is improving and India is well-positioned to gain traction as the vaccination drive accelerates further.

Continuing the accommodative stance

- Keeping the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.
- The reverse repo rate under the LAF remains unchanged at 3.35 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.
- These decisions align with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent while supporting growth.

Assessment of growth and inflation

- In view of the unfolding situation, the RBI has tapered growth projections for FY21-22 from 10.5 per cent to 9.5 per cent.
- Rural demand is expected to remain strong due to normal monsoon forecast, this along with lower demand is expected to position CPI inflation at 5.1 per cent in FY21-22.
- With external demand strengthening, a rebound in global trade is taking hold, which should help India's export sector to thrive. Global demand conditions are expected to improve further buoyed by fiscal stimulus packages and the fast progress of vaccination in advanced economies.
- The need of the hour is for enhanced and targeted policy support for exports. It is opportune now to give further policy push by focusing on quality and scalability.
- The RBI has decided that another operation under G-SAP 1.0 for purchase of G-Secs of ₹40,000 crore will be conducted on June 17, 2021. Of this, ₹10,000 crore would constitute the purchase of state development loans (SDLs).
- RBI would also undertake G-SAP 2.0 in Q2:2021-22 and conduct secondary market purchase operations of ₹1.20 lakh crore to support the market.

RBI Monetary Policy Statement
June 2021

Extending support for MSMEs

- To strengthen the recent growth traction of businesses and ensure the continued flow of credit to the real economy, the Reserve Bank had extended fresh support of ₹50,000 crore on April 7, 2021, to All India Financial Institutions (AIFIs) for new lending in 2021-22. This included ₹15,000 crore to the Small Industries Development Bank of India (SIDBI).
- To further support the funding requirements of MSMEs, particularly the smaller units and other businesses, including those in credit deficient and aspirational districts, a special liquidity facility of ₹16,000 crore has been extended to SIDBI. This would support on-lending/ refinancing through novel models and structures at the prevailing policy repo rate for a period of up to one year, which may be further extended depending on its usage.
- Further, under the Resolution Framework 2.0, the RBI will expand coverage of borrowers in the scheme to Rs 50 crore, from Rs 25 crore earlier.
- Enabling a larger set of borrowers to avail of the benefits under Resolution Framework 2.0, the RBI has expanded the coverage of borrowers under the scheme. The maximum aggregate exposure threshold has been enhanced from ₹25 crore to ₹50 crore for MSMEs, non-MSME small businesses and loans to individuals for business purposes.

The Resolution Framework 2.0 announced by the Reserve Bank provides for the resolution of COVID-19 related stress of MSMEs and non-MSME small businesses and loans to individuals for business purposes.

Stability of exchange rate despite global spillovers

- The RBI is actively engaged in the forex market. Currently, India's foreign exchange reserves have risen to $598 billion, providing the country with confidence to deal with adverse conditions, especially amidst the pandemic.

Strengthening liquidity & financial market guidance

- Given the raging second wave of the pandemic across several states since April, the MPC believed that policy support from all sides is required at this juncture.
- RBI has permitted authorized dealer banks to place margins on behalf of foreign portfolio investors (FPIs), and regional rural banks (RRBs) are allowed to issue a certificate of deposits (CDs) with an option to buyback the CDs.
- All issuers of CDs will be permitted to buyback their CDs before maturity, on certain conditions.
- To help transfer government subsidies during the current crisis in a timely and transparent manner, the National Automated Clearing House (NACH), currently available on bank working days, is proposed to be made available on all days of the week from August 1, 2021.

Given the raging second wave of the pandemic across several states since April, the MPC believed that policy support from all sides is required at this juncture.