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Comments: RBI Monetary Policy - April 7, 2021

Policy Status Quo on Growth Concerns

MPC's decision to retain its accommodative policy and keep all its rates unchanged in the April 2021 statement is completely in line with the market expectations, given the near term impact of the resurgence of the Covid pandemic in India on the nascent growth momentum. While RBI has kept its overall growth forecast for FY22 unchanged at 10.5%, it has slightly downsized its forecast for Q1FY22 in the context of regional lockdowns already announced by some state governments.

Inflationary Pressures

The central bank has taken note of the underlying inflationary pressures emanating from increased global commodity prices and higher logistics costs but projected relatively benign inflationary numbers for the next few quarters. This reinforces our opinion that preservation of the incipient growth trajectory is the primary focus of monetary policy over the next few quarters. However, we believe there is a material upside risk to inflation particularly if crude oil prices rise further and the monsoon turns unfavourable.

Gsec Acquisition Programme (GSAP 1.0)

The other key element in RBI's policy statement is the introduction of a planned secondary market gsec acquisition programme (GSAP 1.0) which will go some way in cooling the increased bond yields; a massive Rs 1 Lakh Cr is proposed to be acquired in Q1FY22 itself which is expected to facilitate the absorption of higher government borrowings at relatively lower costs. Along with other instruments, GSAP 1.0 is likely to be a potent tool to stabilise bond yields in a volatile market scenario.

Credit Availability

In line with its growth supportive approach, RBI has also continued infusion of liquidity in government financial institutions to the extent of Rs. 50,000 Cr which will support credit delivery to the agriculture, housing and the MSME sectors. The priority sector status provided earlier for the banks' loans to NBFCs for on lending to the eligible borrower categories and the on tap TLTRO mechanism have been extended till H1FY22. This may help to prop up banks' credit growth in FY22 which has continued to remain muted and also facilitate funding to the productive sectors.