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Comments on:
RBI MPC Policy Announcement
June 5, 2021

Retrieval of growth impulses – primary focus of RBI

- MPC has unequivocally reaffirmed its accommodative stance and continued with the extended pause on rates to safeguard the nascent growth impulses in the face of strong headwinds from the second Covid wave.
- While RBI has slightly downsized the GDP growth forecasts from 10.5% to 9.5% amidst the stringent lockdowns by most states in April-June, RBI remains fairly optimistic on the growth outlook for FY22.
- MPC continues to project relatively benign inflationary figures for the next few quarters despite the risks of increased commodity costs and supply constraints, around the expectation of low food inflation.
- Clearly, bringing back the growth impulses witnessed particularly in Q4FY21 is the primary focus of monetary policy over the near to medium term with acceptance of CPI inflation at the upper end of the target band (2%-6%)

Strong monetary intervention to keep downward bias on bond yields

- To ensure adequate systemic liquidity and stabilise Gsec yields, RBI has
  - Continued with its GSAP 1.0 programme for Q1FY22 with a scheduled gilt purchase of Rs. 40,000 Cr in June
  - Launched GSAP 2.0 with the planned acquisition of another Rs. 1.2 Lakh Cr in Q2FY22

- Along with the deployment of OMOs and Operation Twist, the announcements are a clear message that RBI would continue to provide necessary support and facilitate a slightly downward bias on the bond yields.

- The inclusion of SDLs in the GSAP scheme will help to keep the costs of states' additional borrowings down.

- As part of its efforts to encourage higher investments by FPIs in Gsecs, RBI has permitted dealer banks to place margins on behalf of FPI clients, easing operational constraints.

Further relief to Covid 2.0 stressed businesses

- Fresh on tap liquidity window of Rs. 15,000 Cr upto 3 yrs at repo rate for banks to provide liquidity relief through fresh loans to the contact intensive sectors such as hospitality and transport who continue to bear the brunt of the pandemic
- An additional Rs. 16,000 Cr funding has been earmarked for SIDBI for lending to MSMEs, directly or indirectly over and above the quantum of Rs. 50,000 Cr set aside for government financial institutions in the April policy
- While the ECLGS programme with a sovereign backup guarantee has been fairly successful, the response of banks to the TLTRO for stressed sectors needs to be seen in the backdrop of credit concerns
- The newly announced second restructuring window under Covid has been extended for all borrowings with outstanding credit upto Rs 50 Cr, thereby covering a predominant part of the MSME ecosystem.