## RBI keeps Repo Rate unchanged at 4% and sets out various developmental and regulatory policy measures

- The Monetary Policy Committee (MPC) met on 6th, 7th and 8th October, 2021. Based on an assessment of the evolving macroeconomic and financial conditions and the outlook, the MPC voted unanimously to maintain status quo with regard to the policy repo rate. Consequently, the policy repo rate remains unchanged at 4 per cent; and the stance remains accommodative 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 marginal standing facility (MSF) rate and the bank rate remain unchanged at 4.25 per cent. The reverse repo rate also remains unchanged at 3.35 per cent.

- The MPC noted that economic activity over the past two months has broadly evolved in consonance with the MPC's August assessment and outlook; and CPI inflation during July-August has turned out to be lower than anticipated. The actual outturn of real GDP growth in Q1:2021-22 at 20.1 per cent was close to, albeit a little below the MPC's forecast of 21.4 per cent. Recovery in the services sector is also gaining traction. Gradual pickup in contact-intensive services, together with strong performance of technology driven sectors, are likely to support the momentum.

- Impact of elevated input costs on profit margins, potential global financial and commodity markets volatility and a resurgence in COVID-19 infections, however, impart downside risks to the growth outlook. Taking all these factors into consideration, the projection for real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 7.9 per cent in Q2; 6.8 per cent in Q3; and 6.1 per cent in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2 per cent.

- The CPI headline momentum is moderating which, combined with favourable base effects in the coming months, could bring about a substantial softening in inflation in the near-term. Taking into consideration all these factors, CPI inflation is projected at 5.3 per cent for 2021-22: 5.1 per cent in Q2, 4.5 per cent in Q3; 5.8 per cent in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.2 per cent. RBI is watchful of the evolving inflation situation and remain committed to bring it closer to the target in a gradual and non-disruptive manner.

- Since the onset of the pandemic, the Reserve Bank has maintained ample surplus liquidity to support a speedy and durable economic recovery. The level of surplus liquidity in the banking system increased further during September 2021, with absorption under fixed rate reverse repo, variable rate reverse repo (VRRR) of 14 days and fine-tuning operations under the liquidity adjustment facility (LAF) averaging ₹9.0 lakh crore per day as against ₹7.0 lakh crore during June to August 2021. The surplus liquidity rose even further to a daily average of ₹9.5 lakh crore in October so far (up to October 6). The potential liquidity overhang amounts to more than ₹13.0 lakh crore.

- With the resumption of normal liquidity operations since mid-January 2021, 14- day variable rate reverse repo (VRRR) auctions have been deployed as the main instrument under the liquidity management framework. Market appetite for VRRRs has been enthusiastic. Moreover, the higher remuneration which VRRR offers vis-à-vis the fixed rate reverse repo is also rendering the former relatively attractive. Keeping in view the market feedback, RBI proposed to undertake the 14-day VRRR auctions on a fortnightly basis in the following manner: ₹4.0 lakh crore today as already notified; ₹4.5 lakh crore on October 22; ₹5.0 lakh crore on November 3; ₹5.5 lakh crore on November 18; and ₹6.0 lakh crore on December 3.

- A special three-year long-term repo operation (SLTRO) of ₹10,000 crore at the repo rate was introduced for Small Finance Banks (SFBs) in May 2021. This facility is currently available till October 31, 2021. Recognising the need for continued support to small business units, micro and small industries, and other unorganised sector entities, <u>RBI decided to extend this facility till December 31, 2021 and make it available On Tap.</u>

- Immediate Payment Service (IMPS) offers instant domestic funds transfer facility 24x7 through various channels. In view of the importance of the IMPS system and for enhanced consumer convenience, <u>RBI proposed to increase the per transaction limit from ₹2 lakh to ₹5 lakh.</u>

- Ensuring wider availability of payments acceptance (PA) infrastructure throughout the country has been one of the priority areas for financial inclusion. To target areas with deficient PA infrastructure, <u>RBI proposed to introduce a framework for leveraging geo-tagging technology for capturing exact location information on all existing and new PA infrastructure viz., Point of Sale (PoS) terminals, Quick Response (QR) Codes, etc.</u> This would complement the Payment Infrastructure Development Fund (PIDF) framework of the Reserve Bank in ensuring wider geographical deployment of PA infrastructure.

- To help States/UTs to manage their cash flows amidst continued uncertainties on account of the pandemic, <u>RBI decided to continue with the interim enhanced WMA limits of ₹51,560 crore for States/UTs for a further period of six months up to March 31, 2022.</u> <u>RBI also decided to continue with the liberalised measures, viz,</u>

enhancement of maximum number of days of overdraft (OD) in a quarter from 36 to 50 days and the number of consecutive days of OD from 14 to 21 days, up to March 31, 2022.

**Please find the attached documents on the same for your kind reference.**

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Warm Regards,

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