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 December 2021. Based on an assessment of the evolving domestic and global macroeconomic and financial conditions and the outlook, the MPC voted unanimously to keep the **policy repo rate unchanged at 4 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. 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.

- On the domestic front, the momentum of economic activity is gaining further traction, aided by expanding vaccination coverage, the rapid subsiding of new infections and release of pent-up demand. Rural demand exhibited resilience – tractor sales improved in October over the same month of 2019 (pre-pandemic level), while motorcycle sales are slowly inching towards their pre-pandemic levels. Continued direct transfers under PM Kisan scheme are supporting rural demand.

- Urban demand and contact-intensive services activities are rebounding on improving consumer optimism, supported by festival demand. High-frequency indicators such as electricity demand, railway freight traffic, port cargo, toll collections, and petroleum consumption registered robust growth in October/November over the corresponding months of 2019.

- Taking all these factors into consideration, projection of real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 6.6 per cent in Q3; and 6.0 per cent in Q4:2021-22. Real GDP growth is projected at 17.2 per cent for Q1:2022-23 and at 7.8 per cent for Q2.

- Headline CPI inflation, which has been on a downward trajectory since June 2021, edged up to 4.5 per cent in October from 4.3 per cent in September on account of a spike in vegetable prices – due to crop damage from heavy rainfalls in October in several states, and fuel inflation – driven up by international prices of liquefied petroleum gas and kerosene. In fact, fuel inflation at 14.3 per cent in October surged to an all-time high. Core inflation or CPI inflation excluding food and fuel remained elevated at 5.9 per cent during September-October with continuing upside pressures stemming from clothing and footwear, health, and transportation and communication sub-groups.

- Liquidity conditions remained in large surplus, with daily absorptions through the fixed rate reverse repo and the variable rate reverse repo (VRRR) operations under the liquidity adjustment facility (LAF) averaging ₹8.6 lakh crore in October-November. Reserve money (adjusted for the first-round impact of the change in the cash reserve ratio) expanded by 7.9 per cent (y-o-y) on December 3, 2021. Money supply (M3) and bank credit by commercial banks grew y-o-y by 9.5 per cent and 7.0 per cent respectively, as on November 19, 2021. India's foreign exchange reserves increased by US$ 58.9 billion in 2021-22 (up to December 3, 2021) to US$ 635.9 billion

- Infusion of Capital in Overseas Branches and Subsidiaries of Banks and Retention/Repatriation/Transfer of Profits by these entities- banks incorporated in India currently seek prior approval of RBI for infusing capital in their overseas branches and subsidiaries as well as for retention and repatriation/transfer of profits from these centres. On a review, and with a view to provide operational flexibility to banks, it has been decided that banks meeting the regulatory capital requirements may, with the approval of their Boards, infuse capital in their overseas branches and subsidiaries; retain profits in these centres; and repatriate/transfer profits therefrom, without prior approval of RBI, subject to post facto reporting. The instructions in this regard are being issued separately.

- External Commercial Borrowing (ECB)/Trade Credit (TC) - Transition from LIBOR to Alternative Reference Rate (ARR)- Currently, the benchmark rate for Foreign Currency (FCY) External Commercial Borrowings (ECB)/Trade Credit (TC) is specified as 6-months LIBOR rate or any other 6-month interbank interest rate applicable to the currency of borrowing. In view of the imminent discontinuance of LIBOR, any widely accepted interbank rate or alternative reference rate (ARR) applicable to the currency of borrowing may be used as a benchmark, post discontinuation. To take into account differences in credit risk and term premia between LIBOR and the ARRs, for new foreign currency ECBs and TCs, it is proposed to revise the all-in-cost ceiling from 450 bps to 500 bps and from 250 bps to 300 bps, respectively, over the ARRs. To enable transition of existing ECBs and TCs linked to LIBOR, it is proposed to revise the all-in-cost ceiling from 450 bps to 550 bps and from 250 bps to 350 bps respectively, over the ARRs.

- UPI for Feature Phone Users- India has a large mobile phone consumer base of about 118 crore mobile users (TRAI, October 2021)1 of which about 74 crore (Statista, July 2021) have smart phones indicating that there is a significant number of feature phone users in the country2. Feature phone users have limited access to innovative payment products. Although feature phones have NUUP (National Unified USSD Platform) as an option for availing basic payment services using the short code of *99#, the same has not picked up. To deepen financial penetration, it is important to bring feature phone users into the mainstream digital payments. In the first cohort of RBI Regulatory Sandbox, some innovators had successfully demonstrated their solutions for feature phone payments, under the theme of 'Retail Payments'. These products, coupled with other complimentary solutions, will facilitate UPI-based digital payment solutions on feature phones to promote wider digitisation. It is proposed to launch a UPI-based payment product for feature phone users. Further details will be announced shortly by RBI.

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

Please contact for any query related to this mail to Ms Shivani Mehrotra, Research Officer at shivani.mehrotra@phdcci.in, with a cc to Dr S P Sharma, Chief Economist | DSG at spsharma@phdcci.in and Ms Kritika Bhasin, Sr. Research Officer at kritika.bhasin@phdcci.in, PHD Chamber of Commerce & Industry.

Warm Regards,

Dr S P Sharma

Chief Economist | DSG
PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016, India
Tel: +91 49545454
Fax: +91 11 26855450
Email: spsharma@phdcci.in
Website: www.phdcci.in
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