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Chart 1: Inflation fan chart

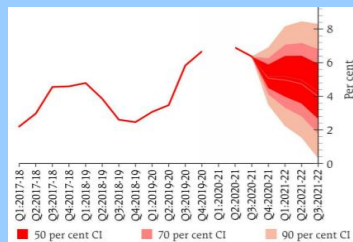
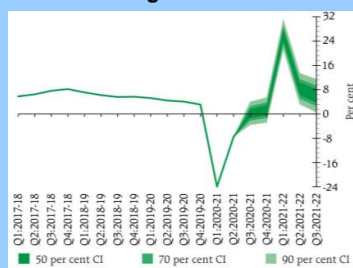


Chart 2: GDP growth fan chart



## INDIA

## Economy

## MPC pauses; announces CRR normalisation

- ▶ **MPC holds rates:** In the last bi-monthly monetary policy for FY21, the MPC kept repo rate unchanged at 4%. It also decided to keep stance of monetary policy 'accommodative' for as long as necessary – at least during the current financial year and into the next financial year. Both the decisions were unanimous.
- ▶ **Committee ups inflation forecast marginally; sees real GDP growth in FY22 at 10.5%:** While noting that headline inflation in Dec 2020 had fallen closer to the target, the committee gave its assessment of factors affecting inflation outlook. On the positive side, good kharif and rabi harvests, larger winter arrival of vegetables, and lower demand for poultry were likely to keep inflation soft. On the negative side, rising cost-push pressures, demand normalisation and crude oil prices could fuel inflationary pressures. The MPC revised its CPI forecast to 5.0%-5.2% in H1FY22 and 4.3% in Q3FY22, up from 4.6%-5.2% in H1FY22 in the previous review. It also revised up its growth forecasts: the committee now sees real GDP growth in the range of 8.3%-26.2% in H1FY22 up from 6.5%-21.9% in the previous review. In Q3FY22, real GDP growth is seen at 6%. For full year FY22, it expects real GDP growth of 10.5%.
- ▶ **Statement lauds Union Budget's thrust on infrastructure:** The policy statement praised Union Budget's thrust on infrastructure spending. It added that the budgeted increase in capex augurs well for capacity creation and increases growth prospects in the future. The statement was largely silent on the possible impact of an expansionary fiscal policy on inflation. We look forward to the minutes (to be released on 22 Feb 2021) to understand members' views on the same.
- ▶ **RBI announces CRR normalisation; inclusion of NBFCs in 'On Tap TLTRO':** The central bank announced several regulatory measures along with the policy. In an important development, it announced restoration of CRR in two phases: to 3.5% from 27 Mar 2021 and to 4.0% from 22 May 2021. Normalisation of CRR is in line with RBI's 'withdrawal from emergency support'. This is likely to result in durable liquidity drain of ~ Rs 1.5trn from the banking system and reduce banks' NIMs by 3-4bps. Also, the RBI decided to include incremental lending of NBFCs that lend to specified stressed sectors in 'On Tap TLTRO'. NBFCs' role in last-mile delivery of financial services is well recognised and this move is likely to provide much-needed support to sectors which do not have easy access to credit. The central bank also allowed banks to exclude credit disbursed to new MSME borrowers from their NDTL.
- ▶ **HTM limit for SLR securities to remain at 22% of NDTL till Mar 2023; last tranche of Capital Conservation Buffer deferred yet again:** To ensure that the government's borrowing programme (centre + states) sails through smoothly in FY22, the RBI decided to keep HTM limit for SLR securities at 22% of NDTL till Mar 2023. It will restore HTM limit to 19.5% in a phased manner from quarter ending Jun 2023. It also deferred the implementation of last tranche of Capital Conservation Buffer to Oct 2021.
- ▶ **Retail investors given direct online access to g-sec market:** In an important development, the central bank gave direct online access to retail investors to the g-sec market (Retail Direct). The objective of this development is to widen the investor base for government securities and help conduct the borrowing programme in a non-disruptive manner. In post-policy interaction with the media, the Governor added that currently small savings offer higher returns than bank deposits and yet bank deposits are growing robustly. Also, the pie of savings in India is expected to increase. Hence, availability of one more saving instrument such as 'Retail Direct' is unlikely to cut into demand for bank deposits.

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