

RBI Monetary Policy Committee keeps Repo rate unchanged at 4%

Economy projected to grow at 9.5% in 2021-22

Rs. 15,000 crore liquidity support to contact-intensive sectors like hotels, tourism, etc.

Additional Measures to boost credit for MSMEs, small businesses and rural sector

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The Governor of the Reserve Bank of India, Shri Shaktikanta Das has announced that the Policy Repo Rate will remain unchanged at 4% and that the Marginal Standing Facility and Bank Rate will remain at 4.25%.

The Reverse Repo Rate too will remain unchanged at 3.35%. He informed that Monetary Policy Committee was of the view that policy support from all sides is required to gain growth momentum and to nurture recovery after it takes root. "Hence policy rate has been left unchanged and accommodative stance has been decided to be continued as long as necessary to revive and sustain growth, while ensuring inflation remains within target" the Governor said while delivering RBI's bi-monthly monetary policy statement through an online address.

Economy projected to grow at 9.5% in 2021-22

The Governor informed that according to RBI, Real GDP growth is projected to grow at 9.5% in 2021-22. Explaining the basis for this, he noted that unlike the first wave, impact on economic activity is expected to be relatively contained in the second wave, with restrictions on mobility being regionalised and nuanced.

While urban demand slowed in April and May 2021, vaccination process is expected to gather steam in coming months and should help to normalise economic activity. The rebound in global trade is expected to support India's export sector. He observed that rural demand is expected to remain strong, due to forecast of a normal monsoon.

The Governor announced that the Consumer Price Index inflation is projected at 5.1% in 2021-22.

Additional Measures

The Governor also announced a set of additional measures with the objective of reviving the economy and to mitigate the adverse impact of the second wave of the COVID-19 pandemic.

1. **On-Tap Liquidity Window for Contact-Intensive sectors:** A separate liquidity window of Rs. 15,000 Crore is being opened till March 31, 2022 with tenures up to three years, at the repo rate.

Under this scheme, Banks can give fresh lending support to hotels, restaurants, travel agents, tour operators, aviation ancillary services and other services including private bus operators, rent-a-car service providers, event organizers, spa clinics, beauty parlours and saloons.

2. **Special Liquidity Facility of Rs. 16,000 Crore to SIDBI,** for on-lending / refinancing through novel models and structures at Repo Rate, for a period of up to one year. This is to further support credit requirements of MSMEs, including those in credit-deficient and aspirational districts.
3. **Expansion of coverage of borrowers under Stress Resolution Framework 2.0,** by enhancing maximum aggregate exposure threshold from Rs. 25 Crore to Rs. 50 Crore for MSMEs, non-MSME small businesses and loans to individuals for business purposes.
4. **Permission given to Authorized Dealer banks to place margins on behalf of FPI clients** for transactions in Govt. securities within banks' credit risk management framework. This will ease operational constraints faced by Foreign Portfolio Investments and promote ease of doing business.
5. **Regional Rural Banks can now issue Certificates of Deposit (CDs)**

Further, all issuers of CDs will be permitted to buy back their CDs before maturity, subject to certain conditions. This will facilitate greater flexibility in liquidity management.

6. **National Automated Clearing House (NACH) to be available on all days of the week** (currently available only on bank working days), effective from August 1, 2021. NACH being a popular and prominent mode of direct benefit transfer to large number of beneficiaries, this measure will enhance customer convenience.

The Governor also took note of the following observations made by the Monetary Policy Committee:

1. Rural demand is expected to remain strong thanks to forecast of normal monsoon. Increased spread of COVID-19 infection in rural areas is a downside risk.
2. Inflation print at April at 4.3% has brought some relief and policy elbow room.
3. Real GDP growth is projected to grow at:
9.5% in 2021-22
18.5% in Q1

7.9% in Q2

7.2% in Q3

6.6% in Q4

4. Consumer Price Index inflation is projected at:

5.1% in 2021-22

5.2% in Q1

5.4% in Q2

4.7% in Q3

5.3% in Q4

5) RBI has conducted regular Open Market Operations and injected additional liquidity to the tune of Rs. 36,545 Crore till May 31, in addition to Rs. 60,000 Crore under Government Securities Acquisition Programme (G-SAP) 1.0, during current year

i) Another operation under G-SAP 1.0 for purchase of Govt. Securities worth Rs. 40,000 Crore to be conducted on 17 June, 2021

ii) G-SAP 2.0 to be conducted in Q2 of 2021-22 for secondary market purchase operations worth Rs. 1.20 Lakh Crore to support market

6) India's exports in March, April and May 2021 have been on an upswing, conducive external conditions are forming for a durable recovery beyond pre-pandemic level

7) As of May 28, 2021, the country's Foreign Exchange Reserves had touched 598.2 Billion US Dollars; the country is at a striking distance of reaching \$ 600 billion of Forex reserves.

In his closing statement, the RBI Governor said that growth impulses are still alive and the RBI's measures announced today are expected to reclaim the growth trajectory.

"India's position as Vaccine capital of the world with leadership in production of pharma products can change the COVID-19 narrative," he pointed out.