Bank of Baroda

MONETARY POLICY REVIEW

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RBI extends liquidity to support growth

MPC kept repo rates on hold and will continue with accommodative stance as long as necessary to revive growth. RBI pared down its GDP forecast to 9.5% in FY22 from 10.5%. CPI is estimated at 5.1% in FY22 from 5%. To support growth, RBI increased GSAP purchases to Rs 1.2tn in Q2 from Rs 1tn in Q1 and will now include SDLs. Targeted liquidity has also been provided to contact intensive sectors and MSMEs (via SIDBI) and borrowers upto Rs 500mn will now be eligible for restructuring. We believe policy reversal is likely in Q4FY22.

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Rates on hold: MPC maintained a status quo on rates and decided to continue with accommodative as long as necessary to revive and sustain growth on a durable basis, while ensuring inflation remains within the target going forward.

Growth forecast revised lower: RBI lowered its growth forecast for FY22 to 9.5% from 10.5% earlier due to impact of localised lockdowns on economic activity. Most of the downward revision is concentrated in H1FY22. Growth in Q1 is now expected at 18.5% versus 26.2% earlier and in Q2 at 7.9% versus 8.3% earlier. On the other hand, growth estimate for Q3 has been revised upwards to 7.2% from 5.4%, and for Q4 growth is now estimated at 6.6% versus 6.2% earlier.

CPI forecasts revised upward: RBI has revised its CPI projection upward to 5.1% in FY22 from 5.0% earlier. The trajectory for Q1FY22 has only been kept unchanged at 5.2%. However, for Q2, Q3 and Q4, it has been revised upward by 20-30bps at 5.4% (5.2% earlier), 4.7% (4.4% earlier) and 5.3% (5.1%) respectively. However, outlook remains broadly balanced with upside risks emanating from supply side bottlenecks due to second wave and rising crude prices (currently at US$ 71/bbl-highest since May'19) and downside risks from normal south west monsoon (food inflation) and buffer stocks of cereals.

Targeted liquidity support: RBI increased the quantum of GSAP purchases to Rs 1.2tn in Q2 from Rs 1tn in Q1. The next GSAP purchase of Rs 400bn this month will include SDL of Rs 100bn. Apart from this, additional OMOs of Rs 365bn have been conducted in Q1 as of now. Additionally, Rs 150bn on-tap liquidity has been provided for contact intensive sectors and will form part of Covid loan book. Further, Rs 160bn of liquidity support has been extended to SIDBI for on-lending to MSMEs. Borrowers with exposure upto Rs 500mn can now avail restructuring from Rs 250mn earlier.

KEY HIGHLIGHTS

- Policy rate kept unchanged at 4%, accommodative stance to continue.
- CPI forecast for FY22 revised upwards from 5% to 5.1%.
- GDP forecast for FY22 revised lower to 9.5% from 10.5% earlier.

Regulatory announcements

- RBI today announced a special liquidity window of Rs 150bn for contact intensive sectors which have been severely impacted by Covid-19. These loans will be available for tenors of 3-years at repo rate till 31 Mar 2022. An amount equal to loans under this facility (Covid loan book) will be eligible to be parked with RBI at a 0.4% premium to existing rate.
- A special liquidity facility of Rs 160bn has been provided to SIDBI for on-lending/refinancing through new models and structures including double intermediation, pooled bond/loan issuances, etc to MSMEs. This facility will be available at the prevailing repo rate for a period of up to one year.
- RBI has expanded the exposure threshold under the Resolution Framework 2.0 for MSMEs to Rs 500mn from Rs 250mn earlier.
- To further enhance FPIs in debt market, Authorised Dealer banks have been allowed to place margins on behalf of their FPI clients for their transactions in G-Secs (including SDLs and Treasury Bills), within the credit risk management framework of banks.
- RRBs have been permitted to issue Certificate of Deposits (CDs) to its investors to allow them to raise short-term funds. Issuers of CDs may buy back these CDs before maturity subject to a few conditions.
- From 1 Aug 2021, National Automated Clearing House (NACH) will be available on all days of the year. This will provide further impetus to digital payments.

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