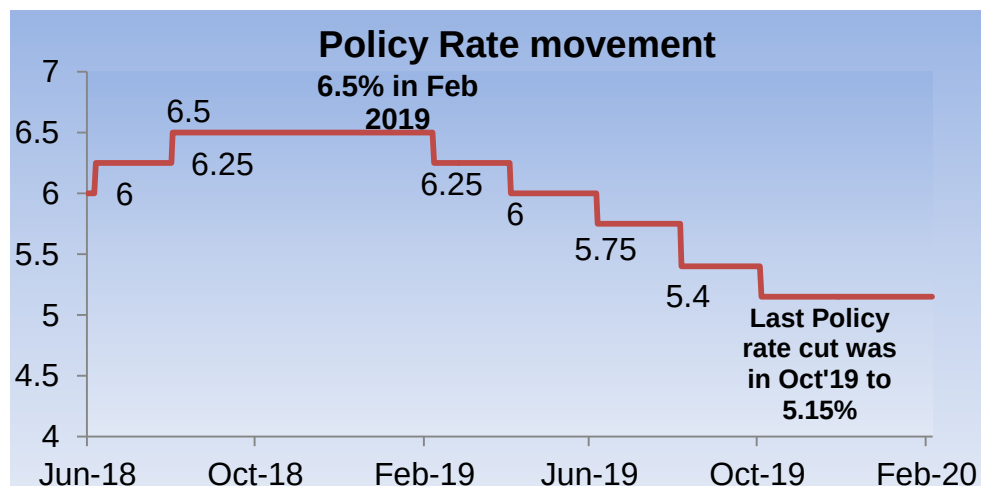


AS EXPECTED, THE RBI KEPT THE POLICY RATE UNCHANGED AND MAINTAINED THE POLICY STANCE "ACCOMMODATIVE".

GDP GROWTH ESTIMATES FOR FY21 IS PROJECTED AT 6%; IN THE RANGE OF 5.5–6% IN H1 FY-21 & 6.2% FOR Q3 FY-21

Monetary Policy: RBI maintains status quo and keeps the policy rate and stance unchanged as expected, given near term concerns about inflation.

- RBI's Monetary Policy Committee in its last credit policy for FY21 decided to keep interest rates unchanged, thereby extending a pause in its current rate-easing cycle. All MPC members voted in favour of the status quo decision.
- MPC also decided to continue with the 'accommodative' stance as long as it is necessary to revive growth.
- MPC stated that there is policy space for rate cuts in the future. However, the outlook for near-term inflation remains uncertain at this juncture and economic activity continues to remain subdued.
- RBI maintained that some of the high-frequency indicators have shown green shoots of economic recovery. However, it would like to wait for more incoming data to gauge the sustainability of the recovery.
- MPC estimates India's GDP to grow at 6% in FY21. With a range of 5.5 to 6.0% in the first half of FY-21 and 6.2% for Q3 FY-21.



Source: Bloomberg

Key highlights of the policy

- MPC revised its CPI inflation projection upwards to 6.5% for Q4 FY-20 and 5.45% for the first half of FY-21. It also revised the projection for Q3 FY-21 to 3.2%, with risks broadly balanced.
- RBI, in an attempt to speed up credit flows, announced that banks will be given a Cash Reserve Ratio (CRR) relief on incremental auto loans, retail housing loans and all micro, small and medium enterprise loans. Relief on CRR will be applicable on loans given between 30th Jan'20 and 31st July'20
- RBI has extended the one-time restructuring scheme for loans to MSMEs till 31st Dec'20. GST registered companies whose MSME accounts are in default as on 1st Jan'20 will be eligible for the one-time restructuring. The recast scheme was initially announced in January last year.
- **Commercial real estate sector:** RBI has decided to extend the restructuring of project loans by a year. It will permit restructuring of project loans for commercial real estate, delayed for reasons beyond the control of promoters, by another one year without downgrading the asset classification.

View:

- RBI's decision was not surprising given the current growth-inflation dynamics, as the economic activity continues to be subdued and near-term outlook on inflation remains uncertain. We expect RBI to be on pause for a longer time (till Q2FY21); however, there might be space for future monetary policy action once inflationary pressure ebbs.
- Debt markets were expecting a status quo on the policy rate but MPC's pro-growth comments have improved the market sentiment. Yields on the 10-year benchmark G-Sec fell by ~4 bps at 6.47% (one-month low) after the monetary policy announcement.
- We recommend investment in high-quality AAA oriented short-term and banking & PSU debt funds. Fresh investment in the short to medium term is recommended with a 2 to 3 year investment horizon.

Disclaimer: This document is STRICTLY for authorized recipients only and is prepared for information purposes only. The information provided herein, we believe, is from reliable sources. IndiaNivesh is not liable for the accuracy of the source data as well as the results of the calculations based on the same. We do not claim that the data provided herein is accurate and complete in all respects. This is not an offer or solicitation of any offer to buy or sell securities. No action is intended to be taken by the recipients based on this document. The recipients may take their decisions based on their own judgement and independent advice that they may receive before making any investment or disinvestment decisions. The recipients are advised not to take any decision only on the basis of this document. No portion of this document should be printed, reprinted, redistributed, reproduced, duplicated or sold.