

# Third Bi-monthly Monetary Policy Update, 2020-21

October 2020

Outcome of the Third bi-monthly monetary policy was in line with market expectation. The Monetary Policy Committee (MPC) decided to keep the key policy repo rate unchanged at 4%. The MPC decided to maintain the accommodative monetary policy stance as long as it is necessary to revive growth, while ensuring inflation remained within target.

## Key outcome:

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.00% .
- Consequently, the reverse repo rate under the LAF was also unchanged at 3.35%.

## Liquidity Measures:

### A. On Tap TLTRO

- The RBI announced an on-tap targeted long term repo operations. Rs 1 lakh crore in funds will be available at floating rate linked to policy rate under this facility for a period of three-years.
- On - tap TLTRO will look at revival of activity in specific sectors that have multiplier effect on growth.
- Liquidity availed by bank under the scheme can also be used to extend loans to these sectors.

### B. Open Market Operations in State Development Loans

- The central bank will also conduct open market operations (OMOs) in state development loans (SDLs) on October 15. These OMOs will rationalise their spread over government securities (G-Secs).
- Size of OMO auction will be kept at Rs 20,000 crore.

## Regulatory Measures:

- RBI will allow banks to increase exposure to retail and small borrowers up to Rs 7.5 crore.
- The central bank is also rationalising risk weights for all new housing loans till March 31, 2022. This measure is expected to give a fillip to the real estate sector.
- To extend the scheme to all NBFCs, including HFCs, in respect of all eligible priority sector loans, and allow greater operational flexibility to the lending institutions.
- RBI Monetary Policy Committee proposes round-the-clock availability of RTGS from December 2020. Payment system operators will be licensed on a perpetual basis.

## GDP & Inflation Outlook:

- The MPC expects Real GDP to decline by 9.5% in FY2020-21 with risks to the downside.
- The MPC expects headline inflation to remain elevated in the September and ease gradually in Q3 and Q4.

## Conclusion:

The outcome of the Third bi-monthly monetary policy announcement of 2020-2021 is a status quo with key announcements. In its first forecast since the Covid crisis began, the RBI said it expects the economy to contract 9.5% in FY21. However, GDP growth may turn positive by Q4 as RBI expects India to see speedy recovery with variations across sectors. To ensure liquidity in the financial market and availability of debt to specific sectors On-Tap TLTRO of another Rs. 1lakh crore announced. Additionally, several regulatory measures such as tweaks on risk weights for home loans with higher equity contribution, increase of exposure limits to individual retail and small business loans are announced. These measures incentivize higher lending to retail and SME sectors which will help in reviving the economy. We believe this would benefit banks, housing finance companies and real estate companies, going ahead.

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