



**Comments on RBI Policy Statement –  
Aug'21**

## **Continuity in accommodative stance likely over next 2 quarters**

- As widely expected, MPC has reaffirmed its accommodative stance without any alteration in the benchmark rates for the seventh time since May-20.
- Given the continuing uncertainty on domestic growth trajectory and the persistent risks of a fresh wave of the Covid pandemic, continuation of the accommodative policy is very likely over next 2 quarters.
- While RBI maintained its GDP growth forecast at 9.5% for FY22, it is interesting to observe that the growth projections for the next few quarters in the current fiscal has been scaled down while enhancing the growth estimates for Q1FY22. This reflects the central bank's concerns on the pace of consumption demand revival.
- Importantly, MPC has also revised the inflation forecasts for FY22 to 5.7% from the earlier 5.1% given the inflationary overhang seen in the first quarter. Nevertheless, it continues to believe that the inflationary pressures are transitory in the backdrop of supply side constraints and a spurt in commodity prices.
- It is amply evident that RBI is comfortable with the headline inflation hovering around 6.0% i.e. the upper band in MPC's inflation targeting framework in the current environment. Given the 'relatively weak' growth impulses and still 'nascent' investment demand, RBI would continue to be strongly supportive of growth over the next 2-3 quarters even at the cost of slightly higher inflation.

## **Policy corridor expected to be normalized from Dec-21**

- RBI would continue to maintain adequate systemic liquidity and implement the previously announced programmes like the GSAP to keep the bond yields under control.
- It has also announced its intent to manage short term liquidity more actively through a significantly higher quantum of Variable Rate Reverse Repo Auctions (VRRR). The size of the auctions will be increased in a phased manner to Rs 4 tn by end Sep-21 from Rs 2 tn currently.
- While the size increase in VRRR auction can't be construed to be liquidity tightening, it may be the first step towards policy normalization as short-term rates are likely to move up vis-à-vis the reverse repo rate.
- The emergency liquidity measures announced in the wake of Covid - On-tap TLTRO and additional MSF funding (1% of NDTL) have been granted a 3-month extension, until Dec 31, 2021, reflecting continuing policy support for the stressed sectors.
- The target date for meeting certain operational performance thresholds under the Covid OTR has been extended to Oct 1, 2022 from Mar 31, 2022 which will help in completing the resolution of some of the pending stressed exposures in the banking system.
- Acuite expects a gradual transition to a neutral monetary stance along with the normalization of the policy corridor through a hike in reverse repo rate by Q4FY22.