

RBI maintains Status Quo on High Inflation and Adequate Liquidity

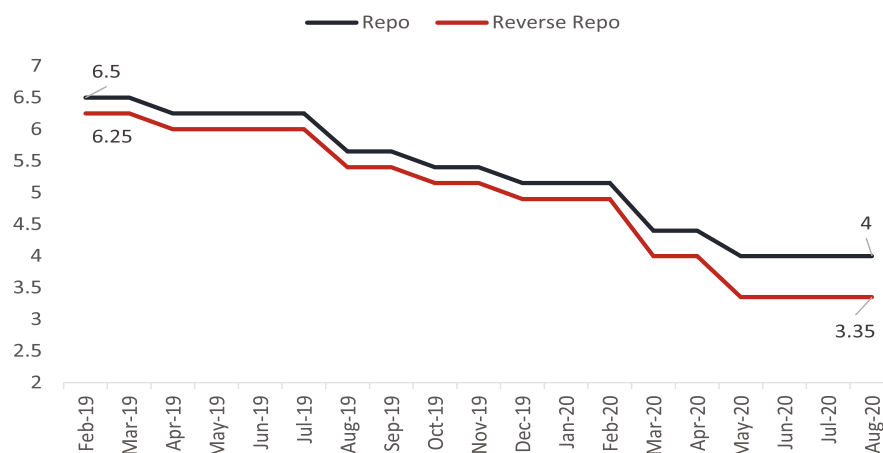
Key Highlights

- **The Monetary Policy Committee in line with our expectations decided to maintain status quo.** Under an accommodative stance the repo rates remain unchanged at 4.00%. Simultaneously the Reverse Repo and MSF stood at 3.35% and 4.25% respectively.
- The economic activity had started to recover but levelled off due to re-clamping of lockdowns in certain pockets of the country. **The Kharif sowing also suggest the recovery in rural economy may be robust.**
- Past rate cuts are working their way in the economy and the current monetary transmission has been an effect of adequate liquidity in the system.
- The RBI reiterated that the liquidity in the system has been abundant and has helped many sections of the society. The cost of borrowing for NBFC's has fallen, the financing conditions for NBFCs look largely stabilized. **Abundant liquidity has also helped the Debt mutual funds to stabilize after the Franklin Templeton episode. Q1 FY21 saw a record primary issuance of corporate bonds of 2.09 lakh crore.**
- **The AAA spreads over government securities have fallen from 276 bps to 50 bps in the last 4 months**
- The RBI has provided for an additional special liquidity facility of Rs. 10000 crores to National Housing bank and NABARD to ameliorate stress in the respective sectors.
- **The MPC has also decided that stressed MSME borrowers will be made eligible for restructuring their debt under the existing framework,** provided their accounts with the concerned lender were classified as standard as on March1,2020.
- In a bid to boost the credit growth the RBI has decided to increase the permissible LTV for loans against pledged jewellery and ornaments to 90% from 75%. The relaxation will be allowed till march 31,2021.
- We believe the CPI will subside by the 2nd half of FY2021 and a further rate cut of 25bps in 2020 cannot be ruled out.

Rates Change	↔
Growth Outlook	↓
Inflation outlook	↓

Monetary Rates	May-20	Aug-20
Repo Rate	4.00	4.00
Reverse Repo	3.35	3.35
MSF	4.25	4.25

Exhibit: Monetary rates



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		INFLATION OUTLOOK			GROWTH OUTLOOK		
DATE	RATE ACTION	STONE	YEAR	RATE	BULLISH	FY18	7.40%
5th Apr 2018	No action	Dovish	H2 18	4.5	Bullish	FY19	7.30%
			H1FY19	4.7-5.1		H1	7.30%
			H2FY19	4.4		H2	7.40%
6th Jun 2018	Rate hike 25bps	Hawkish	H1FY19	4.8-4.9	Neutral	FY19	7.50%
			H2FY19	4.7		H1	7..4%
1st Aug 2018	Rate hike 25bps	Hawkish	H1FY19	4.6	Neutral	FY19	7.40%
			H2FY19	4.8		H2	7.30%
			Q1FY20	5.0		Q1FY20	7.50%
5th Oct 2018	No action	Hawkish	H1FY19	4.0	Bullish	Q1FY20	7.40%
			H2FY19	3.5-4.5		FY20	7.40%
			Q1FY20	4.8			
5th Dec 2018	No action	Hawkish	H2FY19	2.7-3.2	Neutral	FY19	7.40%
			H1FY20	3.8-4.2		H1FY20	7.50%
7th Feb 2019	Rate cut 25 bps	Dovish	Q4FY19	2.8	Neutral	FY20	7.40%
			H1FY20	3.2-3.4		H1FY20	7.2-7.4
			Q320	3.9		Q3FY19	7.50%
4th Apr 2019	Rate cut 25 bps	Dovish	Q4FY19	2.4	Neutral	FY20	7.20%
			H1FY20	2.9-3.0		H1FY20	6.8-7.1
			H2FY20	3.5-3.8		H2FY20	7.3-7.4
6th Jun 2019	Rate cut 25 bps	Dovish	H1FY20	3.0-3.1	Neutral	FY20	7.00%
			H2FY20	3.4-3.7		H1FY20	6.4-6.7
						H2FY20	7.2-7.5
7th Aug 2019	Rate cut 25 bps	Dovish	Q2FY20	3.1	Cautious	FY20	6.90%
			H2FY20	3.5-3.7		H1FY20	5.8-6.6
						H2FY20	7.3-7.5
5th Dec 2019	No action	Dovish	H2FY20	5.1-4.7	Cautious	FY20	5.00%
			H1FY21	4.0-3.8		H2FY20	4.9-5.5
						H1FY21	5.9-6.3
7th Feb 2020	No action	Dovish	H1FY21	5.4-5.0	Neutral	FY20	5.00%
			Q3FY21	3.2		H1FY21	5.9-6.3
27th Mar 2020	Rate cut 75 bps	Dovish					
22nd May 2020	Rate Cut 40 bps	Dovish					
6th Aug 2020	No Action	Dovish					

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