

MONETARY POLICY COMMITTEE (MPC) MEETING HIGHLIGHTS

April 7, 2021

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- >> Rates unchanged and status quo with Repo @4%, Rev Repo @ 3.35% with Marginal Standing Facility (MSF) & Bank Rate both @ 4.25%.
- >> MPC unanimously voted for status quo
- >> MPC members vote continued accommodative stance as long as necessary.
- >> Decisions taken considering medium term target of CPI inflation of 4%, with +/-2% fluctuation.
- >> Next MPC meeting scheduled between June 2 to 4, 2021.

4.00%
Repo

3.35%
Rev Repo

4.25%
MSF

4.25%
Bank Rate

ANALYSIS



- » Recent arrival of high frequency indicators suggest formation of gradual but uneven recovery.
- » World trade activity improved in Q4 of 2020 & January 2021.
- » Inflation remains benign in major advanced economies (AEs).
- » Highly accommodative monetary policies & large fiscal stimuli have added to concerns around market-based indicators of inflation expectations, unsettling bond markets globally.
- » Few emerging market economies (EMEs) experience above targeted inflation driven by firming global commodity prices.
- » Major equity markets have scaled new peaks in March, while currencies are trading mixed against a generally firming US dollar.
- » Bond market sell-offs brought EME assets under selling pressure & capital outflows imposed depreciating pressures on EME currencies in March.

- » NSOs second advance estimates for 2020-21 placed India's real gross domestic product (GDP) contraction at 8.0% during the year.
- » High frequency indicators suggest that gains in manufacturing & services activity in Q3:2020-21 extended into Q4.
- » PMI manufacturing at 55.4 in March 2021.
- » Industrial production index slipped in January 2021 alongside contraction in core industries in February 2021.
- » Food grains & horticulture production for 2020-21 expected to be 2.0% & 1.8% higher respectively than the final estimates of 2019-20.
- » Headline inflation increased to 5.0% in February after having eased to 4.1% in January 2021.
- » 5 out of 12 food sub-groups recorded double digit inflation.
- » Core inflation increase by 50bps to touch 6%.
- » System liquidity remained in large surplus in February and March 2021 with average daily net liquidity absorption of ₹5.9 lakh crore.
- » Reserve money (RM) increased by 14.2% (y-o-y) as on March 26, 2021.
- » Money supply (M3) grew by 11.8% as on March 26, 2021.
- » Credit growth at 5.6 per cent.
- » ₹6.8 lakh crore of corporate bonds issued up to February 2021.
- » Commercial Paper (CP) issuances higher by 10.4% during Dec. 2020 to Mar. 2021 than in the same period of previous year.
- » Foreign exchange reserves increased by US\$ 99.2 billion during 2020-21 providing an import cover of 18.4 months & 102% of India's external debt.

- » CPI inflation trajectory is likely to be subjected to both upside & downside pressures.
- » Food grains production in 2020-21 should sustain softening of cereal prices going forward.
- » Firm international prices, reduced import duties & incentives enhancing domestic productivity could sustain a better demand-supply balance for edible oils over the medium-term.
- » Reduction in excise duties and cesses & state level taxes could provide some relief to consumers amidst recent easing of international crude prices.
- » Inflation expectations of urban households one year ahead showed a marginal increase than over the three months ahead horizon according to the Reserve Bank’s March 2021 survey.
- » CPI inflation is now projected as 5.0 per cent in Q4:2020-21; 5.2 per cent in Q1:2021-22, 5.2 per cent in Q2, 4.4 per cent in Q3 and 5.1 per cent in Q4, with risks broadly balanced.
- » Rural demand remains buoyant backed by record agriculture production for 2020-21.
- » Urban demand gaining strength back due to normalization of economic activity & ongoing vaccination drive.
- » Fiscal stimulus should provide strong support to investment demand and exports.
- » Firms engaged in manufacturing, services and infrastructure polled by the Reserve Bank in March 2021 were optimistic about a pick-up in demand and expansion in business activity into 2021-22.
- » Consumer confidence has dipped with the recent surge in COVID infections in some states imparting uncertainty to the outlook.
- » The projection of real GDP growth for 2021-22 is retained at 10.5 per cent consisting of 26.2 per cent in Q1, 8.3 per cent in Q2, 5.4 per cent in Q3 and 6.2 per cent in Q4.
- » The supply side pressures on inflation could persist with demand side pull remaining moderate.
- » Normalization of global supply chains could partially offset rising cost-push pressures.
- » Urgent concerted & coordinated policy actions by Centre and States can mitigate domestic input costs such as taxes on petrol and diesel and high retail margins.
- » Continued policy support remains necessary amidst the renewed jump in COVID-19 infections in certain parts of the country & the associated localised lockdowns.
- » The MPC decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

- Beacon Research & Analytics Wing (R.A.W.)

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