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**MONETARY POLICY COMMITTEE (MPC)
MEETING HIGHLIGHTS**

June 4, 2021

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- >> Rates remain unchanged & 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 August 4 to 6, 2021.

4.00%
Repo

3.35%
Rev Repo

4.25%
MSF

4.25%
Bank Rate

ANALYSIS



- »» Global economic recovery gaining momentum owing to major advanced economies (AEs), massive vaccination programmes & stimulus packages.
- »» CPI inflation firms up in most AEs backed by release of pent up demand, elevated input prices & unfavourable base effects.
- »» Major emerging market economies (EMEs) reflect uneven activity owing to renewed infection waves of contagious mutant variants of virus & slow progress in vaccination.
- »» Inflation in major EMEs has been near to or above official targets for recent months factored by sustained rise in global food & commodity prices.
- »» Global merchandise trade continues recovery affected by resuming external demand, elevated freight rates & container dislocations.
- »» Global financial conditions remain benign.

- »» Real GDP contraction at 7.3% for FY 2021.
- »» GDP growth in Q4 FY 2021 at 1.6% y-o-y.
- »» Normal forecast for rainfall auguring for agriculture.
- »» Indicators of rural demand decline during April owing to rise in infections.
- »» Industrial production registered a improvement in March 2021.
- »» Mining & electricity output surpassed pre-pandemic levels in contrast to manufacturing.
- »» Double digit y-o-y growth for output of core industries in April 2021.
- »» GST collections at highest in April 2021.
- »» Lower E-way bills generation indicate moderate GST collections in May 2021.
- »» Other high frequency indicators record sequential moderation during April - May 2021.
- »» Manufacturing PMI moderates to 50.8 in May from 55.5 in April.
- »» Services PMI contracts to 46.4 in May from 54.0 in April.
- »» Headline inflation moderates to 4.3% in April from 5.5% in March.
- »» Food inflation fell to 2.7% in April from 5.2% in March.
- »» Core (CPI excl. food & fuel) inflation moderated in April across most sub groups barring housing & health, owing to base effects.
- »» System liquidity at large surplus in April & May 2021.
- »» Average daily net absorption under the liquidity adjustment facility (LAF) amounting INR 5.2 lakh crore.
- »» Reserve money (adjusted for the first round impact of change in cash reserve ratio (CRR) expanded by 12.4% y-o-y on May 28, 2021.
- »» Money Supply (M3) & bank credit grew by 9.9% & 6.0%, respectively, as on May 21, 2021.
- »» Foreign exchange reserves grew by US\$ 21.2 bn in FY 2022 (up to May 28) to US\$ 598.2 bn.

- » Rising trajectory of commodity prices along with logistics costs pose upside risks to inflation outlook.
- » Co-ordinated adjustments needed for excise duties, cess & taxes imposed by Centre & States, to contain input cost pressures from petrol & diesel prices.
- » Cereal price pressures depend on normalcy of south-west monsoon & buffer stock availability.
- » Tightness in pulses market expected to ameliorate owing to recent supply side interventions.
- » Supply side measures needed to soften pressures on pulses & edible oil prices.
- » CPI inflation projected at 5.1% for FY 2022: 5.2% in Q1, 5.4% in Q2, 4.7% in Q3 & 5.3% in Q4 for FY 2022.
- » Rural demand remains strong.
- » Downside risks posed owing to increased spread of COVID-19 infections in rural areas.
- » Urban demand dented by the second wave of COVID-19 infections.
- » Adoption of COVID - compatible business models enabling appropriate working environment may soften the hit to economic activity.
- » Export sector to be favourably affected by strengthening global recovery.
- » Domestic monetary & financial conditions remain highly accommodative & supportive.
- » Expected rise in vaccinations to help normalize economic activity quickly.
- » Real GDP growth projected at 9.5% in FY 2022 with 18.5% in Q1, 7.9% in Q2, 7.2% in Q3 & 6.6% in Q4.

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

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