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THE FEDERATION OF TELANGANA CHAMBERS OF COMMERCE & INDUSTRY

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## **Minutes of the Monetary Policy Committee Meeting** February 3-5, 2021

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

- On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on February 5, 2021 decided to:
- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.
  - Consequently, the reverse reporate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.
- The MPC also decided to continue with the accommodative stance as long as necessary at least during the current financial year and into the next financial year to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

#### **Assessment**

#### Global Economy

The global economic recovery slackened in Q4 (October-December) of 2020 relative to Q3 (July-September) as several countries battle second waves of COVID-19 infections, including more virulent strains. With massive vaccination drives underway, risks to the recovery may abate and economic activity is expected to gain momentum in the second half of 2021. In its January 2021 update, the International Monetary Fund (IMF) has revised upward its estimate of global growth in 2020 to (-)3.5 per cent from (-) 4.4 per cent and increased the projection of global growth for 2021 by 30 basis points to 5.5 per cent. Barring some emerging market economies, inflation remains benign on weak aggregate demand, although rising commodity prices carry upside risks. Financial markets remain buoyant, supported by easy monetary conditions, abundant liquidity and optimism from the vaccine rollout. Global trade is also expected to rebound in 2021, with services trade on a slower recovery than merchandise trade.

### **Domestic Economy**

The first advance estimates of GDP for 2020-21 released by the National Statistical Office (NSO) on January 7, 2021 estimated real GDP to contract by 7.7 per cent, in line with the projection of (-)7.5 per cent set out in the December 2020 resolution of the MPC. High frequency indicators railway freight traffic; toll collection; e-way bills; and steel consumption suggest that revival of some constituents of the services sector gained traction in Q3 (October-December). The agriculture sector remains resilient - rabi sowing was higher by 2.9 per cent year-on-year (y-o-y) as on January 29, 2021, supported by above normal north-east monsoon rainfall and adequate reservoir level of 61 per cent (as on February 4, 2021) of full capacity, above the 10 years average of 50 per cent.

Cont... Page 2

- After breaching the upper tolerance threshold of 6 per cent for six consecutive months (June-November 2020), CPI inflation fell to 4.6 per cent in December on the back of easing food prices and favourable base effects. Food inflation collapsed to 3.9 per cent in December after averaging 9.6 per cent during the previous three months (September-November) due to a sharp correction in vegetable prices and softening of cereal prices with kharif harvest arrivals, alongside supply side interventions. On the other hand, core inflation, i.e. CPI inflation excluding food and fuel remained elevated at 5.5 per cent in December with marginal moderation from a month ago. In the January 2021 round of the Reserve Bank's survey, inflation expectations of households softened further over a three month ahead horizon in tandem with the moderation in food inflation; one year ahead inflation expectations, however, remained unchanged.
- Systemic liquidity remained in large surplus in December 2020 and January 2021, engendering easy financial conditions. Reserve money rose by 14.5 per cent y-o-y (on January 29, 2021), led by currency demand. Money supply (M<sub>3</sub>), on the other hand, grew by only 12.5 per cent as on January 15, 2021, but with non-food credit growth of scheduled commercial banks accelerating to 6.4 per cent. Corporate bond issuances at  $\Box$ 5.8 lakh crore during April-December 2020 were higher than □4.6 lakh crore in the same period of last year. India's foreign exchange reserves were at US\$ 590.2 billion on January 29, 2021 an increase of US\$ 112.4 billion over end-March 2020.





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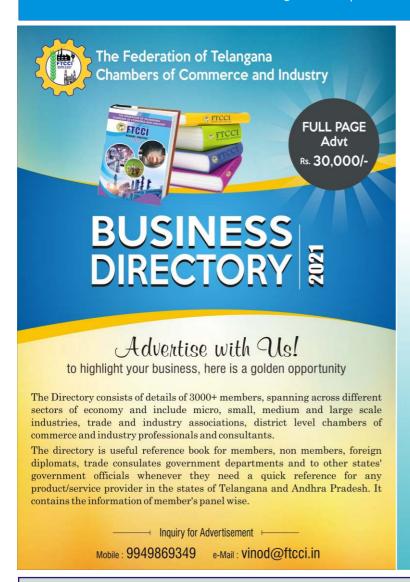
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# The Federation of Telangana Chambers of Commerce and Industry

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For details, please contact

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