

**Key Highlights - RBI Policy Measures - First Meeting of the Second MPC**

RBI's Stance



Accommodative

Key Announcements:

- The RBI's MPC has unanimously decided to keep the repo rate **unchanged at 4.00%** and to continue with the "Accommodative" stance.
- **Real GDP growth for FY21 to contract by 9.5%**. GDP growth may **turn positive by the fourth quarter**.
- **Inflation to come down** in the **third and fourth quarter** as supply constraints ease.
- **Measures:** To conduct on-tap TLTRO to nudge credit pickup; rationalised risk weightage on home loans; increased OMOs to Rs. 20,000 crore; raising retail lending limits; fixes WMA limit and lastly introduce round-the-clock RTGS facility.

The MPC unanimously voted to **keep rates unchanged**, and decided to **maintain its accommodative** monetary policy stance to support growth amid the pandemic. Further the Governor also added that the accommodative stance would remain "as long as necessary, **at least through the current financial year and into the next year to revive growth** on a durable basis and mitigate the impact of Covid-19 while ensuring that inflation remains within the target going forward."

Policy Rates / Reserve Ratio	Current
Repo Rate	4.00%
Reverse Repo Rate	3.35%
MSF	4.25%
Bank rate	4.25%
CRR	3.00%
SLR	18.00%

Growth & Inflation Outlook by RBI:

- ❖ The RBI's MPC has pegged the **real GDP growth for FY21 to contract by 9.5%**. The RBI had so far refrained from providing any forecasts on growth due to the heightened uncertainty.
- ❖ **GDP growth may turn positive by the fourth quarter**.
- ❖ The Governor said that, there is an expectation of **three-speed recovery in economic activity, with variation among the sectors**. He also added that the mood of the nation is shifting from **despair and fear to hope** and that the **rural economy looks resilient** despite the Covid pandemic.
- ❖ RBI expects **inflation to come down in the third and fourth quarter as supply constraints ease**. The monetary policy committee has decided to look through the current inflation as a **transient phase**.

Measures to Combat the Crisis

RBI Announced a host of additional measures to combat the impact of coronavirus:

- ❖ Introduce on-tap targeted long-term repo operations (**TLTRO**) for **banks to borrow up to Rs. 1 lakh crore from the window** and invest in corporate bonds and other debt instruments of certain sectors. This will have **tenors of up to three years at a floating rate linked to the policy repo rate** and the scheme will be **available up to 31 March, 2021**. The focus of liquidity measures by RBI will now include revival of activities in specific sectors that have both backward and forward linkages and multiplier effect on growth.
- ❖ RBI will make real-time gross settlement (**RTGS**) **24x7x365 from December 2020**. This will facilitate innovations in the large value payments ecosystem and promote ease of doing business
- ❖ It also **rationalised risk weightage on home loans**, meaning all new housing loans risk will be linked only to **loan to value**. This benefit will only be available for new housing loans till March 31, 2022.



09 October 2020

- ❖ **Banks can lend up to Rs. 7.5 crore (Rs. 5 crore earlier) to individual retail borrowers and small businesses** and still be eligible for a 75% risk weight. The measure is expected to increase the much-needed credit flow to the small business segment.
- ❖ **Ways & Means Advance (WMA) limit for the Centre was kept at Rs 1.25 lakh crore** for the second half of the fiscal. WMAs are temporary advances given by the RBI to the government to tide over any mismatch in receipts and payments.
- ❖ RBI will conduct special and outright bond purchases. The size of the special outright **Open Market Operations (OMOs) will be increased to Rs 20,000 crore** and will be conducted on October 15. OMOs will be conducted **impart liquidity to state development loans (SDLs)** and thereby facilitate efficient pricing as a special case during the current financial year.

Outlook

Since the beginning of the COVID crisis the RBI has said and implemented **“whatever it takes”** to boost economic growth. Today’s policy statement by RBI was a perfect exposition to this phase. Although the RBI did not cut the benchmark interest rate, it announced a significantly **dovish monetary policy** with a series of measures. On tap TLTRO, introduction of round-the-clock RTGS facility, doubling the size of open market operations to Rs. 20,000 crore, RBI participation in state development loans, allowing co-origination of loans by HFCs, are combined **big-ticket announcements for both bond market and financial sector stocks.**

The **reasonable confidence by RBI to keep maintain an accommodative stance till FY22 brought in an immediate cheer in the bond market.** All the yields across the board - India 10 year GSec, Corporate Bond & Money Market, fell. **We continue to reiterate our approach to remain on the shorter end of the curve with funds having high quality of papers and modified duration in the range of 2-3 years. Accordingly investors can look to invest in Banking & PSU Debt Funds / Corporate Bond Funds / Short Duration Funds in the accrual space.**





Disclaimer

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. TATA Capital Financial Services Limited ('TCFSL') is not soliciting any action based upon it. Nothing in this research report shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of the reader. This research report has been prepared for the general use of the clients of the TCFSL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research report in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. TCFSL will not treat recipients as customers by virtue of their receiving this report. Neither this document nor any copy of it may be taken or transmitted into the United States (to US Persons), Canada or Japan or distributed, directly or indirectly, in the United States or Canada or distributed, or redistributed in Japan to any residents thereof. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. This report is solely for the purpose of providing information about various financial products available in the market. While we make reasonable efforts to ensure the accuracy of information contained within this report, we cannot guarantee such accuracy and do not accept any liability arising out of the use of this report. The information detailed in the report may be provided by third parties (i.e. respective registrar's, transfer agents, Asset Management Companies and/ or other offering entities).

It is confirmed that, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of TCFSL and TCFSL has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Neither TCFSL nor its directors, employees, agents, representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

The report is based upon information obtained from sources believed to be reliable, but TCFSL does not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. It does not have any obligation to correct or update the information or opinions in it. TCFSL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. TCFSL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations. This information is subject to change without any prior notice. TCFSL reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, TCFSL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Neither TCFSL nor the director or the employee of TCFSL accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research report and/or further communication in relation to this research report.

We and our affiliates, officers, directors, and employees worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

Investments in securities are subject to market risk; please read the SEBI prescribed Combined Risk Disclosure Document prior to investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Our research should not be considered as an advertisement or advice, professional or otherwise.



General Disclosure

Wealth Management is a service offering of Tata Capital Financial Services Limited (TCFSL) and is offered at its sole discretion. Terms and conditions apply.

Loans are referred by Tata Capital Wealth Management and may be offered by Tata Capital Financial Services Limited ("TCFSL"), Tata Capital Housing Finance Limited (TCHFL) or other entities. All loans are at the sole discretion of the entities offering the loans. Tata Credit Card is a white label credit card issued, established and operated by SBI Cards and Payments Services Pvt. Ltd. It is marketed and distributed by TCFSL. Terms and Conditions apply. All products other than the foregoing are only marketed by TCFSL and are brought to you by various entities at the sole discretion of those entities and the said entities would be solely responsible for all disputes or claims in regard to them.

TCFSL is also registered with the Securities and Exchange Board of India ("SEBI") as an Investment Adviser bearing Registration no. INA000002215.

TCFSL is also engaged in Mutual Fund Distribution business and is registered with The Association of Mutual Funds in India ("AMFI") bearing ARN No. 84894. Please note that all Mutual Fund Investments are subject to market risks, read all scheme related documents carefully before investing for full understanding and details.

TCFSL bearing License no. CA0076 (valid till 31st Mar 2022), acts as a composite Corporate Agent of various Insurance Companies as permitted under IRDAI (Registration of Corporate Agents) Regulations 2015. TCFSL does not underwrite the risk or act as an insurer. For more details on the risk factors and terms & conditions, please read the sales brochure carefully before concluding the sale.

Registered office: 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013, India.

