Economic Intelligence Cell

Macro Insights

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Highlights of the RBI's Monetary Policy

A. Policy Rate	*Rate*	*Change*
Policy Repo Rate	5.90%	**50 bps↑**
Standing Deposit Facility (SDF)	5.65%	**50 bps↑**
MSF Rate	6.15%	**50 bps↑**
Bank Rate	6.15%	**50 bps↑**
B. Reserve Ratios		↔
Cash Reserve Ratio (CRR)	4.50%	↔
Statutory Liquidity Ratio (SLR)	18.00%	↔

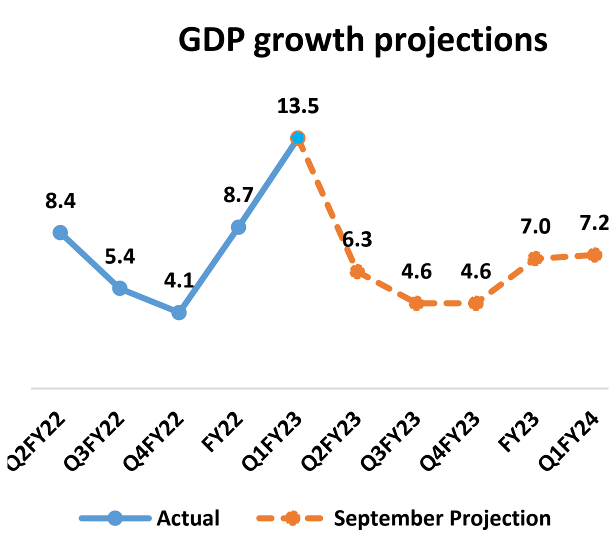
Policy Rates and Stance:
RBI monetary policy commission (MPC) voted unanimously to increase the repo rate by 50 bps.

Stance:
Withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Rationale:
High inflation necessitates monetary accommodation withdrawal

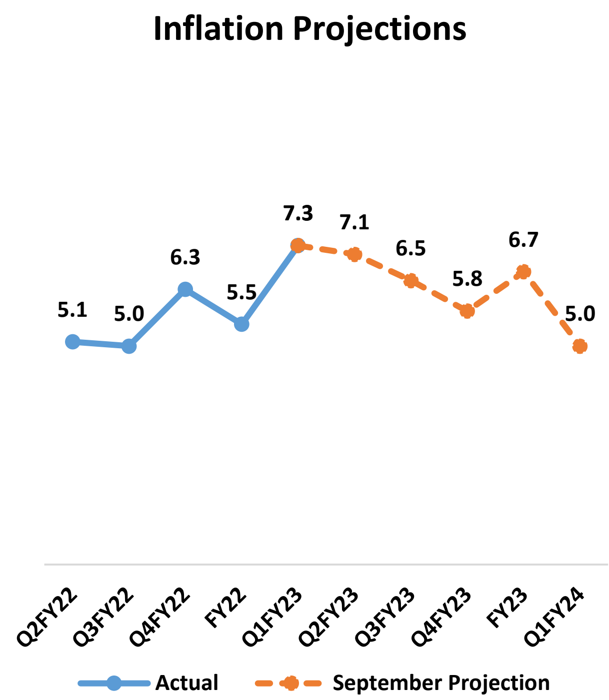
GDP Outlook:

- ✓ Economy activity in India remains stable,
- ✓ Real GDP grew by 13.5 per cent (Y-o-Y) in Q1:2022-23, surpassing the pre pandemic level by 3.8 per cent.
- ✓ Buoyant credit growth, government capex to support growth in October-March period
- ✓ India's real GDP growth remains highest among major economies
- ✓ GDP growth, kharif sowing seen supporting demand in October-March period
- ✓ Geopolitical headwinds may pose downside risk to growth
- ✓ High frequency data shows economy activity is resilient



Inflation Outlook:

- ✓ Inflation persists on alarming high level across jurisdiction
- ✓ Inflation trajectory remains clouded with uncertainty
- ✓ CPI remains elevated due to large supply shocks
- ✓ Crude price correction if sustained can ease price pressure
- ✓ Policy actions to be carefully calibrated to the incoming data
- ✓ Risk to food inflation may hit inflation expectations adversely
- ✓ Delayed monsoon withdrawal is impacting vegetable prices
- ✓ Geopolitical tensions are weighing on domestic inflation
- ✓ High inflation globally may trigger second-order effects
- ✓ The inflation projection for Q3FY23 is revised upwards on the back of strong demand emerging from the festive season.



Liquidity Measures:

- ✓ All segments of financial markets are in turmoil
- ✓ Nervous investor sentiments have triggered flight to safety
- ✓ Nervousness in financial markets to have implications on the economy
- ✓ Liquidity remains in surplus
- ✓ Weighted average call rate has risen 196 bps so far in FY23
- ✓ Surplus liquidity moderated to 2.3 trillion rupees in August-September period
- ✓ Large government spending in October-March period can increase system liquidity
- ✓ RBI will conduct fine-tuning operations to inject and absorb liquidity
- ✓ RBI has merged 28-day VRRR with 14-day VRRR on fall in liquidity. RBI will conduct only 14-day VRRR operations going forward
- ✓ Forward guidance may destabilize financial markets in rate hike cycle.

External Sector:

- ✓ Global economy is in the eye of a new storm
- ✓ Pandemic followed by Ukraine war have produced enough economic conflict
- ✓ Aggressive monetary move by global banks is third headwind to the economies
- ✓ Global economy outlook continues to be bleak
- ✓ Central banks hiking rates despite growth sacrifice
- ✓ Advanced and Emerging economies confronted with slowing growth
- ✓ Emerging markets face challenges of currency depreciation, growth and inflation
- ✓ 67% of decline in forex reserves in FY23 is due to valuation changes
- ✓ Forex reserves umbrella continues to remain strong

Additional Measures

- RBI to bring out discussion Paper on Expected Loss (EL) Based Approach for Loan Loss Provisioning by Banks.
- RBI to introduce framework for securitization of stressed assets
- Rationalization of Criteria for RRBs to provide Internet Banking Facility to the Customers
- Online Payment Aggregators (PAs) have been brought under the purview of RBI regulations since March 2020. It is now proposed to extend these regulations to offline PAs, who handle proximity/ face-to-face transactions.

Our View:

RBI's rate hike is on expected lines and is in tandem with the rate hikes across the global economies to quell the inflationary pressures. RBI through its commentary on the liquidity in the banking system and forex reserves has provided the needed confidence to the markets. Going forward, RBI's assurance on external support will go a long way in clearing the uncertainty regarding the rupee.

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