

Third Bi-monthly Monetary Policy Update, 2022-23

June, 2022

The Monetary Policy Committee (MPC) decided to increase the key policy repo rate by 0.50% at 4.90%. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Key Outcome

- The policy repo rate under the liquidity adjustment facility (LAF) was increased by 0.50% at 4.90%.
- Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.15 per cent.

GDP Growth Forecast

- The real GDP growth for FY23 is retained at 7.2%.
- The forecast includes growth of 16.2% in Q1, 6.2% in Q2, 4.1% in Q3 and 4% in Q4.

Inflation Expectation

- CPI inflation forecast for FY23 raised to 6.7 percent from 5.7 percent.
- For April-June revised to 7.5 percent from 6.3 percent.
- For July-September revised to 7.4 percent from 5.8 percent.
- For October-December revised to 6.2 percent from 5.4 percent.
- For January-March 2023 revised to 5.8 percent from 5.1 percent.

Other key announcements

- The RBI will allow the linking of credit cards to the UPI platform, starting with Rupay cards.
- E-Mandate On Cards For Recurring Payments enhanced from Rs. 5000 to Rs.15,000.

Conclusion

After an unexpected rate increase at an off-cycle meeting in May, the Reserve Bank of India (RBI) hiked the repo rate by 50 basis points taking the repo rate to 4.90 per cent. The MPC's decision to hike policy rates comes against the backdrop of continuous rise in inflation. The move was slightly above market expectation of 40 basis rise. While the real GDP growth forecast for FY23 has been retained at 7.2%, the inflation projection for the year has been increased to 6.7% from 5.7% earlier. The MPC noted that inflation is likely to remain above the upper tolerance band of 6 per cent through the first three quarters of FY23. We believe, rate sensitive sectors (auto, consumer durables, real estate, etc.) will face demand challenges as rate cycle has turned northward. The minutes of the MPC's meeting will be published on June 22, 2022. The next meeting of the MPC is scheduled during August 2-4, 2022.

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