

Fourth Bi-monthly Monetary Policy Update, 2022-23

August, 2022

The Monetary Policy Committee (MPC) decided to increase the key policy repo rate by 0.50% at 5.40%. 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 5.40%.
- Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.15 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.65 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.
- Q1 FY24 growth seen at 6.7%.

Inflation Expectation

- CPI forecast for FY23 retained at 6.7 percent.
- For April-June revised to 7.5 percent from 6.3 percent.
- For July-September revised to 7.1 percent from 7.4 percent.
- For October-December revised to 6.4 percent from 6.2 percent.
- For January-March 2023 retained at 5.8 percent.
- Q1 FY24 CPI seen at 5%.

Other key announcements

- The Reserve Bank of India proposes to enable standalone primary dealers to offer all forex market-making facilities.
- Standalone primary dealers can offer all forex market-making facilities as permitted for Category-1 authorised dealers.
- To permit SPDs to deal in offshore rupee overnight index swap market.

Conclusion

The Reserve Bank of India (RBI) hiked the repo rate by 50 basis points taking the repo rate to 5.40 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 35basis rise. The real GDP growth forecast for FY23 has been retained at 7.2%, the inflation projection for the year has been retained at 6.7%. 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 turn northward. The minutes of the MPC's meeting will be published on August 19, 2022. The next meeting of the MPC is scheduled during September 28-30, 2022.

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