

Macro Insights

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Highlights of the RBI's Monetary Policy

A. Policy Rate	Rate	Change
Policy Repo Rate	4.90%	50 bps↑
Reverse Repo Rate	3.75%	↔
Standing Deposit Facility (SDF)	4.65%	50 bps↑
MSF Rate	5.15%	50 bps↑
Bank Rate	5.15%	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.



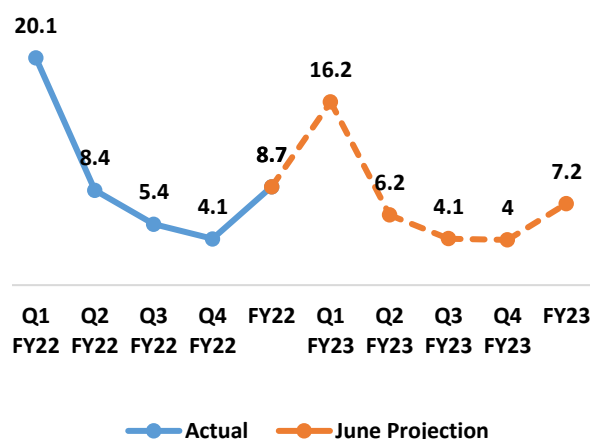
Rationale:

MPC voted unanimously for increase in the interest rate to tame the inflation while supporting growth alongside.

GDP Outlook:

- ✓ According to the provisional estimates released by NSO on May 31, 2022, India's real GDP rose by 8.7 per cent in 2021- 22. This is 1.5 per cent above the pre-pandemic level (2019-20). In Q4:2021-22, real GDP growth decelerated to 4.1 per cent from 5.4 per cent in Q3, dragged down mainly by weakness in private consumption on the back of the Omicron wave.
- ✓ The recovery in domestic economic activity is gathering strength. Rural consumption should benefit from the likely normal south-west monsoon and the expected improvement in agricultural prospects. A rebound in contact-intensive services is likely to bolster urban consumption, going forward. Investment activity is expected to be supported by improving capacity utilisation, the government's capex push, and strengthening bank credit. Growth of merchandise and services exports is set to sustain the recent buoyancy.

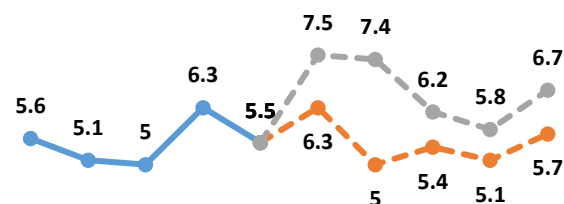
GDP growth Projections



Inflation Outlook:

- ✓ The tense global geopolitical situation and the consequent elevated commodity prices impart considerable uncertainty to the domestic inflation outlook. The forecast of a normal south-west monsoon augurs well for the kharif agricultural production and the food price outlook. Edible oil prices remain under pressure on adverse global supply conditions, notwithstanding some recent correction due to the lifting of export ban by a major supplier. Consequent to the recent reduction in excise duties, domestic retail prices of petroleum products have moderated.
- ✓ International crude oil prices, however, remain elevated, with risks of further pass-through to domestic pump prices. There are also upside risks from revisions in the prices of electricity. Manufacturing, services and infrastructure sector firms expect further input and output price pressures going forward. Taking into account these factors, and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US\$ 105 per barrel.

Inflation Projections



Q1 FY22 Q2 FY22 Q3 FY22 Q4 FY22 FY22 Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23 FY23

—●— Actual —●— April Projection —●— June Projection

Liquidity Measures:

- In line with the emphasis on gradual withdrawal of accommodation articulated in the April and May MPC resolutions, systemic liquidity has moderated in the recent period. Surplus liquidity, as reflected in average daily absorption under the liquidity adjustment facility (LAF) – that is, the absorption under SDF and variable rate reverse repo (VRRR) of 14 days and 28 days – at ₹5.5 lakh crore during May 4-May 31 was lower than ₹7.4 lakh crore during April 8-May 3, 2022.
- Going ahead, RBI while normalising the pandemic related extraordinary liquidity accommodation over a multi-year time frame, will ensure availability of adequate liquidity to meet the productive requirements of the economy. The RBI will also remain focused on orderly completion of the government's borrowing programme.
- Bank credit offtake has gradually improved in the recent months, supported by both resilience of the banking system and progressive normalisation of economic activity. The strength of the banking sector and deleveraged corporate balance sheets will help us in sustaining the economic recovery.

External Sector:

- India's exports have performed exceptionally well despite weakening recovery across major trading partners.
- The impact of rising crude oil prices on petroleum, oil and lubricants (POL) import bill has been partly offset by export of petroleum products, which also benefitted from better price realisations in recent months.
- Optimism on exports of both goods and services and remittances should help contain the current account deficit (CAD) at a sustainable level, which can be financed by normal capital flows.
- As on June 3, 2022, India's foreign exchange reserves were of the order of US\$ 601.1 billion.

Additional Measures

➤ Regulatory Measures – Cooperative banks

Three measures are being announced for the cooperative banking sector:-

- ✓ The limits for individual housing loans being extended by Urban Cooperative Banks and Rural Cooperative Banks (RCBs- State Cooperative Banks and District Central Cooperative Banks) are revised upwards by over 100 per cent taking into account increase in house prices. This will facilitate better flow of credit to the housing sector.
- ✓ In line with the dispensation available to Scheduled Commercial Banks and UCBs, it is now proposed to permit Rural Cooperative Banks to extend finance to 'commercial real estate – residential housing' (i.e. loans for residential housing projects), within the existing aggregate housing finance limit of 5% of their total assets. This measure will further augment credit flows from the cooperative banks to the housing sector.
- ✓ It has been decided to permit UCBs to extend doorstep banking services to their customers

➤ Margin Requirements for Non-Centrally Cleared Derivatives (NCCDs)

The Reserve Bank is putting in place margin requirements for non-centrally cleared OTC derivatives. To garner feedback from stakeholders on these requirements, Draft Directions on Exchange of Initial Margin for NCCDs will be issued shortly.

➤ e-Mandates on Cards for Recurring Payments – Limit Enhancement

To facilitate recurring payments like subscriptions, insurance premia, education fee, etc. of larger value under the framework, the limit is being enhanced from ₹5,000 to ₹15,000 per transaction.

➤ Unified Payments Interface (UPI) – Linking of RuPay Credit Cards

In May 2022, about 594 crore transactions amounting to ₹10.4 lakh crore were processed through UPI. At present, UPI facilitates transactions by linking savings/current accounts through users' debit cards. It is now proposed to allow linking of credit cards on the UPI platform. To begin with, the Rupay credit cards will be linked to the UPI platform. This will provide additional convenience to users and enhance the scope of digital payments.

➤ Review of Payments Infrastructure Development Fund Scheme

It is proposed to make modifications to the PIDF scheme by enhancing the subsidy amount, simplifying the subsidy claim process and other steps. This will further accelerate and augment the deployment of payment acceptance infrastructure in the targeted geographies.

Our View:

As on expected lines, the RBI has hiked the repo rate to tame the inflationary pressures. It has also changed its stance to withdrawal of accommodation giving strong signal to the market that RBI is committed to bring back the inflation in its tolerance band and will eventually withdraw the excess liquidity from the system. The growth projections are kept unchanged as the numbers were already on the conservative side. Housing loan is a focus area of RBI, evident through the measures like enhancement of limits for individual housing loans for Cooperative banks and permitting rural cooperative banks to lend to residential housing segments.

Going ahead, we expect another 25 bps hike in the August policy review to reach at pre-pandemic level of 5.15%. Then we expect a pause by the RBI to reassess the geo-political situation and the impact on growth before acting further.

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