RBI Policy – September 2022 – Key Takeaways

RBI Monetary Policy

Repo Rate Now at 5.9% vs 5.4%	**Increased**
Standing Deposit Facility Now at 5.65% vs 5.15%	**Increased**
MSF Bank Rate Now at 6.15% vs 5.65%	**Increased**
Policy Stance Withdrawal	**Continues**
CRR At 4.5%	**Unchanged**

RBI on Growth, Inflation

FY23 GDP Growth	**Projected at 7% vs 7.2% in Aug'22**
FY23 Inflation Outlook	**Retained at 6.7%**

- **On Rate Increase –** The Reserve Bank of India hiked its key lending rate by 50 basis points to 5.90 per cent, a three-year high driven by elevated inflation, aggressive global central bank policies, and turmoil in financial markets.

  The RBI's rate-setting panel voted 5:1 to continue with its current stance of "withdrawal of accommodative measures". With the latest increase, the RBI has raised the repo rate by 190 basis points in four instalments since May, as central banks scramble to fight red-hot inflation.

- **On Growth –** The Reserve Bank of India on Friday slashed the growth projection to 7 per cent for the current fiscal from the earlier forecast of 7.2 per cent, citing aggressive tightening of monetary policies globally and moderation in demand. The RBI sees 6.3% growth in Q2, 4.6% in Q3, and Q4FY23. ***<u>The growth projections assume crude oil at $100 per barrel in the H2FY23 vs $105 assumed in the previous meet.</u>***

- RBI **Governor** Shaktikanta Das said the central bank remains committed to price stability to put the country on the sustained path of growth. High frequency data for Q2 indicates economic activities remain resilient with private consumption picking up, rural demand looking up and the flow of financial resources to the commercial sector. Merchandise exports have been affected due to external factors. According to the RBI's surveys, consumer outlook remains stable and firms in manufacturing, services and infrastructure sectors are optimistic about demand conditions and sales prospects.

- **On Inflation –** The Reserve Bank on Friday retained its inflation projection for current fiscal year at 6.7 per cent amid global geopolitical developments triggered by Russia-Ukraine war. RBI Governor Shaktikanta Das said the impact of inflation globally is weighing heavily on the domestic market. For September quarter of 2022-23, RBI projected retail inflation at 7.1 per cent. For third quarter, inflation is estimated at 6.5 per cent and further down to 5.8 per cent in March quarter with risks evenly balanced.

- Acute imported inflation pressures felt at the beginning of the financial year have eased but remain elevated across food and energy items. Going forward, there could be some tapering of selling price increases on account of easing supply conditions and softening of industrial metal and crude oil prices. With services activity showing strong rebound and some improvement in pricing power, risks of higher pass-through of input costs, however, do remain.

There are upside risks to food prices and much of these projections hinges on crude oil prices remaining under the estimate of $100 a barrel for the Indian basket

- **Other Key takeaways:**
  - World in midst of third major shock from aggressive monetary tightening by central banks
  - Indian economy continues to be resilient in midst of global turmoil
  - Economic activity in India remains stable
  - Bank credit has grown at accelerated pace of 16.2%
  - Rupee movement orderly against US dollar; depreciated only 7.4% this year till Sep 28
  - RBI remains confident of financing our external sector deficit
  - Currency movements are not the guiding factors for monetary policy decisions.

- 67% of the decline in the foreign exchange reserves since April was due to valuation changes arising from strengthening US dollar and higher American bond yields.
- The forex reserves, which stood at USD 606.475 billion as on April 2, have declined to USD 537.5 billion as on September 23. It was also the eighth straight week when the reserves declined.
- Offline payment aggregators (PAs) who aid in face-to-face transactions at merchant outlets will now come under the regulatory purview of RBI.
- The Reserve Bank is mulling to adopt the "expected loss" approach for loan provisioning. At present, the banks follow the "incurred loss" approach, where money is set aside after an asset turns sour.
- The Reserve Bank of India will stop conducting 28-day variable rate reverse repo (VRRR) auctions, considering the current banking system liquidity conditions, but will continue with 14-day VRRR auctions.