RBI Policy – June 2022 - Key Takeaways

RBI Monetary Policy

Repo Rate Now at 4.9% vs 4.4%	**Increased**
Standing Deposit Facility Now at 4.65% vs 4.15%	**Increased**
MSF Bank Rate Now at 5.15% vs 4.65%	**Increased**
Policy Stance Withdrawal	**Changed**
CRR At 4.5%	**Unhanged**

RBI on Growth, Inflation

FY23 GDP Growth	**Retained at 7.2%**
FY23 Inflation Outlook	**Projected at 6.7% vs 5.7% in Apr'22**

- **On Rate Increase –** The monetary policy committee (MPC) on June8increased the repo rate by 50 bps to 4.9%. The latest policy rate hike comes within a short span of just above one month when it had announced 40 bps increase in repo rate in an off-cycle policy move in May'22. The MPC voted unanimously to remain focused on the withdrawal of accommodation to ensure inflation remains within target going forward.

- **On Growth –** India's GDP growth projection has been retained at 7.2% for FY23, with the Monetary Policy Committee saying the recovery in domestic economic activity is "gathering strength". The RBI sees 16.2% real GDP growth in Q1FY23, 6.2% in Q2, 4.1% in Q3, and Q4 at 4%. ***The growth projections assume crude oil at $105 per barrel in the ongoing fiscal vs $100 assumed in the previous meet.***

  The forecast of normal south-west monsoon should boost rural consumption and rebound in contact intensive sector is expected to sustain urban consumption. However, spillovers from "prolonged geopolitical tensions, elevated commodity prices, continued supply bottlenecks and tightening global financial conditions nevertheless weigh on the outlook", according to RBI statement. Investment activity is expected to strengthen driven by increase in capacity utilization, government capex push and deleveraged corporate balance sheet.

- **On Inflation –**RBI has revised its inflation target for FY23 by 100 bps to 6.7%, however, it does not take into account the impact of the 50 bps repo rate hike announced today. The upside risk to the inflation do persists from elevated commodity prices, revisions in electricity tariffs across many states, high domestic poultry and animal feed costs, continuing trade and supply chain bottlenecks, rising pass-through of input costs to selling prices in the manufacturing and services sectors, the recent spike in tomato prices which are adding to food inflation and most important of all, the elevated international crude oil prices.

  It may be noted that 75% of the increase in inflation projections can be attributed to the food group. A large part of the rise in inflation can be attributed to a series of supply shocks linked to the war.

- **Other Key takeaways:**
  - **Hike in recurring payment limits –** The limit on recurring e-payments is now raised to ₹15,000 from ₹5,000 to further facilitate transactions such as subscriptions, insurance premia, education fee, etc.
  - **Proposal to link credit cards to UPI –** RBI proposed to link credit cards to the UPI platforms, and the implementation will start with Rupay Credit Cards. RBI said that the move will provide additional convenience to users and enhance the scope of digital payments.
  - Limits on individual home loans given by Urban and Rural co-operative banks (RCBs) are being revised upwards more than 100 percent taking into account the rise in housing prices over the last decade. RCBs will be allowed to extend finance to commercial real estate and residential housing.
  - India's foreign exchange reserves stood at $601.1 billion.
  - RBI is monitoring the government securities market very closely. It will take the necessary steps as and when required.

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