

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Aug 5, 2022 announced that the central bank has decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.40% with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.15% and the marginal standing facility (MSF) rate and the Bank Rate to 5.65%. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2%, while supporting growth.

Bharat Bill Payment System to strengthen cross border payment ecosystem, make transaction seamless for NRIs. Most likely scenario is banks will pass on impact of repo rate hike to deposit rate. Governor in his statement stated that the rupee has behaved in an orderly way and that forex reserves are a sturdy umbrella against external pressures on the Indian rupee. Most likely scenario is banks will pass on impact of repo rate hike to deposit rates. This is already happening and the trend will continue, he added. Household inflation expectations have eased, but remain elevated.

Outlook:

Spillovers from geopolitical shocks are imparting considerable uncertainty to the inflation trajectory. More recently, food and metal prices have come off their peaks. The appreciation of the US dollar can feed into imported inflation pressures. The assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US\$ 105 per barrel, the inflation projection is retained at 6.7% in 2022-23, with Q2 at 7.1%; Q3 at 6.4%; and Q4 at 5.8%, and risks evenly balanced. CPI inflation for Q1:2023-24 is projected at 5.0%.

On the outlook for growth, rural consumption is expected to benefit from the brightening agricultural prospects. On the other hand, elevated risks emanating from protracted geopolitical tensions, the upsurge in global financial market volatility and tightening global financial conditions continue to weigh heavily on the outlook. Taking all these factors into consideration, the real GDP growth projection for 2022-23 is retained at 7.2%, with Q1 at 16.2%; Q2 at 6.2%; Q3 at 4.1%; and Q4 at 4.0%, and risks broadly balanced. Real GDP growth for Q1:2023-24 is projected at 6.7%.

Headline inflation has recently flattened and the supply outlook is improving, helped by some easing of global supply constraints. The MPC, however, noted that inflation is projected to remain above the upper tolerance level of 6% through the first three quarters of 2022-23, entailing the risk of destabilizing inflation expectations and triggering second round effects.

Policy Rates								
Y-O-Y Growth (%)	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Repo	4.00%	4.00%	4.00%	4.00%	4.40%	4.90%	4.90%	5.40%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.00%	4.00%	4.00%	4.00%	4.50%	4.50%	4.50%	4.50%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Inflation (WPI)	14.87%	14.27%	13.68%	13.43%	14.63%	15.38%	15.88%	15.18%
Inflation (CPI)	4.91%	5.59%	6.01%	6.07%	6.95%	7.79%	7.04%	7.01%
GDP Growth								
Y-O-Y Growth (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
GDP (% Growth)	-23.82%	-6.64%	0.74%	2.53%	20.08%	8.40%	5.40%	4.09%
GVA (% Growth)	-21.41%	-5.88%	2.09%	5.70%	18.15%	8.30%	4.71%	3.89%

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