RBI Monetary Policy : Feb 8-10, 2022

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Feb 10, 2022 announced that the central bank has decided to keep key rates unchanged - repo rate remains at 4%, the reverse repo rate also remains unchanged at 3.35%. All members of the MPC voted unanimously to maintain 'accommodative' stance. Further, the marginal standing facility has also been left unchanged at 4.25%.

Since the MPC's meeting in December 2021, the rapid spread of the highly transmissible Omicron variant and the associated restrictions have dampened global economic activity. The global composite purchasing managers' index (PMI) slipped to an 18-month low of 51.4 in January 2022, with weakness in both services and manufacturing. World merchandise trade continues to grow.

Headline CPI inflation edged up to 5.6 per cent y-o-y in December from 4.9 per cent in November due to large adverse base effects. The food group registered a significant decline in prices in December, primarily on account of vegetables, meat and fish, edible oils and fruits, but sharp adverse base effects from vegetables prices resulted in a rise in y-o-y inflation. Fuel inflation eased in December but remained in double digits.

Overall system liquidity continued to be in large surplus, although average absorption (through both the fixed and variable rate reverse repos) under the LAF declined from Rs. 8.6 lakh crore during October-November 2021 to Rs. 7.6 lakh crore in January 2022. India's foreign exchange reserves increased by US$ 55 billion in 2021-22 (up to February 4, 2022) to US$ 632 billion.

Key Announcements:

- The RBI has enhanced the cap on e-rupee vouchers from Rs 10,000 to Rs 1 lakh. These vouchers can now be used more than once. The e-rupee had been launched last year by the NPCI.
- Banks were given certain incentives for lending under on-tap liquidity window mainly for two sectors (Emergency Health Services and Contact-intensive Sectors) – on account of the continued uncertainties brought on by the third wave, the on-tap liquidity window has been extended from March 31, 2022 to June 30, 2022
- RBI would continue to insulate domestic economy from global spill overs.
- Overall system liquidity in large surplus even though it has moderated.
- Limit for inflows under the Voluntary Retention Scheme hiked to Rs 2.5 lakh crore from Rs 1.5 lakh crore. Move will provide additional sources of capital for domestic debt markets, including government securities.
- RBI has decided to allow banks in India to undertake transactions in the offshore Foreign Currency Settled-Overnight Indexed Swap (FCS-OIS) market with non-residents and other market makers.
- Given the growing liquidity requirements of MSMEs, it is proposed to increase the NACH mandate limit from Rs. 1 crore at present to Rs. 3 crore for TReDS related settlements.
- VRR and VRRR of 14-day tenor – will operate as main liquidity management tool: Variable rate repo operations of varying tenors will henceforth be conducted as and when warranted. Second, variable rate repos and variable rate reverse repos of 14-day tenors will operate as the main liquidity management tool. Third, these operations will be aided by fine turning operations. Fourth, with effect from March 1, the fixed rate reverse repo and Marginal Standing Facility will only be available from 5:30-11:59 PM on all days.

Outlook:

The outlook for crude oil prices is rendered uncertain by geopolitical developments even as supply conditions are expected to turn more favorable during 2022. While cost-push pressures on core inflation may continue in the near term, the Reserve Bank surveys point to some softening in the pace of increase in selling prices by the manufacturing and services firms going forward, reflecting subdued pass-through. On balance, the inflation projection for 2021-22 is retained at 5.3 per cent, with Q4 at 5.7 per cent. On the assumption of a normal monsoon in 2022, CPI inflation for 2022-23 is projected at 4.5 per cent with Q1:2022-23 at 4.9 per cent; Q2 at 5.0 per cent; Q3 at 4.0 per cent; and Q4:2022-23 at 4.2 per cent, with risks broadly balanced

The impact of the ongoing third wave of the pandemic on the recovery is likely to be limited relative to the earlier waves, improving the outlook for contact intensive services and urban demand. The announcements in the Union Budget 2022-23 on boosting public infrastructure through enhanced capital expenditure are expected to augment growth and crowd in private investment through large multiplier effects. The pick-up in non-food bank credit, supportive monetary and liquidity conditions, sustained buoyancy in merchandise exports, improving capacity utilization and stable business outlook augur well for aggregate demand. Global financial market volatility, elevated international commodity prices, especially crude oil, and continuing global supply-side disruptions pose downside risks to the outlook. Taking all these factors into consideration, the real GDP growth for 2022-23 is projected at 7.8% with Q1:2022-23 at 17.2%; Q2 at 7.0%; Q3 at 4.3%; and Q4:2022-23 at 4.5%.

Policy Rates								
Y-O-Y Growth (%)	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**	**Jan-22**	**Feb-22**
Repo	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
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%	4.00%	4.00%	4.00%	4.00%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	**May-21**	**Jun-21**	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**
Inflation (WPI)	13.11%	12.07%	11.57%	11.64%	11.80%	13.83%	14.23%	13.56%
Inflation (CPI)	6.30%	6.26%	5.59%	5.30%	4.35%	4.48%	4.91%	5.59%
GDP Growth								
Y-O-Y Growth (%)	**Q3FY20**	**Q4FY20**	**Q1FY21**	**Q2FY21**	**Q3FY21**	**Q4FY21**	**Q1FY22**	**Q2FY22**
GDP (% Growth)	3.28%	3.01%	-24.43%	-7.44%	0.46%	1.64%	20.13%	8.39%
GVA (% Growth)	3.40%	3.67%	-22.37%	-7.31%	1.04%	3.72%	18.77%	8.46%