

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Sep 30, 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 5.90% with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.65% and the marginal standing facility (MSF) rate and the Bank Rate to 6.15%. 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.

The 50bps hike in policy rates has been in line with market expectations. The current stand by RBI is partly driven by the US Federal Reserve which is going aggressive in order to bring down inflation. Domestic economic activity is holding up well and is expected to be buoyant in H2:2022-23, supported by festive season demand amidst consumer and business optimism.

Outlook:

The outlook for crude oil prices is highly uncertain and tethered to geopolitical developments, with attendant concerns relating to both supply and demand. The Reserve Bank's enterprise surveys point to some easing of input cost and output price pressures across manufacturing, services and infrastructure firms; however, the pass-through of input costs to prices remains incomplete. Inflation is projected at 6.7 per cent in 2022-23, with Q2 at 7.1%; Q3 at 6.5%; and Q4 at 5.8%, and risks are evenly balanced. CPI inflation for Q1:2023-24 is projected at 5.0%.

On growth, the improving outlook for agriculture and allied activities and rebound in services are boosting the prospects for aggregate supply. The Government's continued thrust on capex, improvement in capacity utilization in manufacturing and pick-up in non-food credit should sustain the expansion in industrial activity that stalled in July. The outlook for aggregate demand is positive, with rural demand catching up and urban demand expected to strengthen further with the typical upturn in the second half of the year.

On the other hand, headwinds from geopolitical tensions, tightening global financial conditions and the slowing external demand pose downside risks to net exports and hence to India's GDP outlook. Taking all these factors into consideration, real GDP growth for 2022-23 is projected at 7.0% with Q2 at 6.3%; Q3 at 4.6%; and Q4 at 4.6%, and risks broadly balanced. For Q1:2023-24, it is projected at 7.2%. In the MPC's view, inflation is likely to be above the upper tolerance level of 6 per cent through the first three quarters of 2022-23, with core inflation remaining high. The outlook is fraught with considerable uncertainty, given the volatile geopolitical situation, global financial market volatility and supply disruptions.

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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