

### Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Dec 07, 2022 announced that the central bank has decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 35 basis points to 6.25% with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 6.00% and the marginal standing facility (MSF) rate and the Bank Rate to 6.50%. 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.

### Outlook:

The inflation trajectory going ahead would be shaped by both global and domestic factors. In case of food, while vegetable prices are likely to see seasonal winter correction, prices of cereals and spices may stay elevated in the near-term on supply concerns. Adverse climate events – both domestic and global – are increasingly becoming a significant source of upside risk to food prices. Global demand is weakening. Unabating geopolitical tensions continue to impart uncertainty to the food and energy prices outlook. The correction in industrial input prices and supply chain pressures, if sustained, could help ease pressures on output prices; but the pending pass-through of input costs could keep core inflation firm. Imported inflation risks from the US dollar movements need to be watched closely. Taking into account these factors and assuming an average crude oil price (Indian basket) of US\$ 100 per barrel, inflation is projected at 6.7% in 2022-23, with Q3 at 6.6% and Q4 at 5.9%, and risks evenly balanced. CPI inflation for Q1:2023-24 is projected at 5.0% and for Q2 at 5.4%, on the assumption of a normal monsoon. The real GDP growth for 2022-23 is projected at 6.8% with Q3 at 4.4% and Q4 at 4.2%, with risks evenly balanced. Real GDP growth is projected at 7.1% for Q1:2023-24 and at 5.9% for Q2.

Inflation has ruled at or above the upper tolerance band since January 2022 and core inflation is persisting around 6%. Headline inflation is expected to remain above or close to the upper threshold in Q3 and Q4:2022-23. It is likely to moderate in H1:2023-24 but will still remain well above the target. Meanwhile, economic activity has held up well and is expected to be resilient, supported by domestic demand. Net exports would remain subdued due to the drag from evolving external demand conditions. Further, the impact of monetary policy measures undertaken needs to be watched. On balance, the MPC is of the view that, further calibrated monetary policy action is warranted to keep inflation expectations anchored, break the core inflation persistence and contain second round effects, so as to strengthen medium-term growth prospects.

Policy Rates								
Y-O-Y Growth (%)	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Repo	4.40%	4.90%	4.90%	5.40%	5.90%	5.90%	5.90%	6.25%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.50%	4.50%	4.50%	4.50%	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 (%)	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Inflation (WPI)	14.63%	15.38%	16.63%	16.23%	14.07%	12.48%	10.70%	8.39%
Inflation (CPI)	6.95%	7.79%	7.04%	7.01%	6.71%	7.00%	7.41%	6.77%
GDP Growth								
Y-O-Y Growth (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
GDP (% Growth)	0.74%	2.53%	20.08%	8.40%	5.40%	4.09%	13.51%	6.34%
GVA (% Growth)	2.09%	5.70%	18.15%	8.30%	4.71%	3.89%	12.75%	5.61%

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