

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on June 8, 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 4.90% with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65% and the marginal standing facility (MSF) rate and the Bank Rate to 5.15%. 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 per cent, while supporting growth.

Outlook:

The recovery in domestic economic activity is gathering strength. Rural consumption should benefit from the likely normal south-west monsoon and the expected improvement in agricultural prospects. A rebound in contact-intensive services is likely to bolster urban consumption, going forward. Investment activity is expected to be supported by improving capacity utilization, the government's capex push, and strengthening bank credit. Spillovers from prolonged geopolitical tensions, elevated commodity prices, continued supply bottlenecks and tightening global financial conditions nevertheless weigh 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%, with risks broadly balanced.

Inflation is now projected at 6.7 per cent in 2022-23, with Q1 at 7.5%; Q2 at 7.4%; Q3 at 6.2%; and Q4 at 5.8%, with risks evenly balanced. RBI Inflation forecast assumes normal monsoon and crude basket price at \$105/barrel. While normalizing pandemic-related measures, RBI will ensure adequate liquidity in the banking system. Limits on individual home loans given by urban and rural co-operative banks are being revised upwards more than 100 percent taking into account the rise in housing prices over the last decade. The limit on recurring e-payments is now raised to Rs 15,000 from Rs 5,000 to further facilitate transactions such as subscriptions. Credit cards, starting with RuPay credit cards, can now be linked to UPI.

Inflation risks flagged in the April and May resolutions of the MPC have materialized. The projections indicate that inflation is likely to remain above the upper tolerance level of 6 per cent through the first three quarters of 2022-23. The supply side measures taken by the government would help to alleviate some cost-push pressures. At the same time, however, the MPC notes that continuing shocks to food inflation could sustain pressures on headline inflation.

Policy Rates								
Y-O-Y Growth (%)	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Repo	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.40%	4.90%
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%	4.50%	4.50%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Inflation (WPI)	11.80%	13.83%	14.87%	14.27%	13.68%	13.43%	14.55%	15.08%
Inflation (CPI)	4.35%	4.48%	4.91%	5.59%	6.01%	6.07%	6.95%	7.79%
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%

Disclaimer: The information contained in this report has been obtained from sources considered to be authentic and reliable. However, RNB Corporate Services Pvt. Ltd. is not responsible for any error or inaccuracy or for any losses suffered on account of this information. Mutual Fund investments are subject to market risks, read all scheme related documents carefully.