

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on May 4, 2022 announced that the central bank has decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 40 basis points to 4.40% with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.15% and the marginal standing facility (MSF) rate and the Bank Rate to 4.65%. The MPC also decided to remain accommodative while focusing 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:

Heightened uncertainty surrounds the inflation trajectory, which is heavily contingent upon the evolving geopolitical situation. Global commodity price dynamics are driving the path of food inflation in India, including prices of inflation sensitive items that are impacted by global shortages due to output losses and export restrictions by key producing countries. International crude oil prices remain high but volatile, posing considerable upside risks to the inflation trajectory through both direct and indirect effects. Core inflation is likely to remain elevated in the coming months, reflecting high domestic pump prices and pressures from prices of essential medicines. Renewed lockdowns and supply chain disruptions due to resurgence of COVID-19 infections in major economies could sustain higher logistics costs for longer. All these factors impart significant upside risks to the inflation trajectory set out in the April statement of the MPC.

Against this background, the MPC is of the view that while economic activity is navigating the vortex of forces confronting the world with resilience on the strength of underlying fundamentals and buffers, the risks to the near-term inflation outlook are rapidly materializing, as reflected in the inflation print for March and the developments thereafter. In this milieu, the MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second round effects.

Taking into account the continuing pick-up in inflation, the central bank had revised its inflation projection to 5.7% in 2022-23 from an earlier projection of 4.5%. Inflation is projected at 6.3% in the April-June quarter, exceeding the RBI's upper target of 6%. GDP growth for 2022-23 is now projected at 7.2% from an earlier projection of 7.8%.

Policy Rates								
Y-O-Y Growth (%)	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Repo	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.40%
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%	4.00%	4.00%	4.00%	4.50%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Inflation (WPI)	11.64%	11.80%	13.83%	14.87%	14.27%	12.96%	13.11%	14.55%
Inflation (CPI)	5.30%	4.35%	4.48%	4.91%	5.59%	6.01%	6.07%	6.95%
GDP Growth								
Y-O-Y Growth (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
GDP (% Growth)	3.01%	-23.82%	-6.64%	0.74%	1.64%	20.33%	8.48%	5.40%
GVA (% Growth)	3.67%	-21.41%	-5.88%	2.09%	3.72%	18.40%	8.38%	4.74%

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