



**PHD Research Bureau**  
PHD Chamber of Commerce and Industry



## **RBI keeps Repo Rate unchanged at 4% and sets out various developmental and regulatory policy measures**

- The Monetary Policy Committee (MPC) met on 8th, 9th and 10th February 2022. Based on an assessment of the evolving domestic and global macroeconomic and financial conditions and the outlook, the MPC voted unanimously to keep the **policy repo rate** under the liquidity adjustment facility (LAF) **unchanged at 4 per cent**. The reverse repo rate under the LAF remains unchanged at 3.35% and the marginal standing facility (MSF) rate and the Bank Rate at 4.25%
- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.
- Available high frequency indicators suggest some weakening of demand in January 2022 reflecting the drag on contact-intensive services from the fast spread of the Omicron variant in the country. Rural demand indicators – two-wheeler and tractor sales – contracted in December-January. Area sown under Rabi up to February 4, 2022 was higher by 1.5 per cent over the previous year. Amongst the urban demand indicators, consumer durables and passenger vehicle sales contracted in November-December on account of supply constraints while domestic air traffic weakened in January under the impact of Omicron. Investment activity displayed a mixed picture – while import of capital goods increased in December, production of capital goods declined on a year-on-year (y-o-y) basis in November. Merchandise exports remained buoyant for the eleventh successive month in January 2022; non-oil non-gold imports also continued to expand on the back of domestic demand.
- 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. Core inflation or CPI inflation excluding food and fuel stayed elevated,

though there was some moderation from 6.2 per cent in November to 6.0 per cent in December, driven by transportation and communication, health, housing and recreation and amusement.

- Recovery in domestic economic activity is yet to be broad-based, as private consumption and contact-intensive services remain below pre-pandemic levels. Going forward, the outlook for the Rabi crop bodes well for agriculture and rural demand. 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 utilisation 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 per cent with Q1:2022-23 at 17.2 per cent; Q2 at 7.0 per cent; Q3 at 4.3 per cent; and Q4:2022-23 at 4.5 per cent**
- The MPC notes that inflation is likely to moderate in H1:2022-23 and move closer to the target rate thereafter, providing room to remain accommodative. Timely and apposite supply side measures from the Government have substantially helped contain inflationary pressures. The potential pick up of input costs is a contingent risk, especially if international crude oil prices remain elevated. The pace of the domestic recovery is catching up with pre-pandemic trends, but private consumption is still lagging. COVID-19 continues to impart some uncertainty to the future outlook. Measures announced in the Union Budget 2022-23 should boost aggregate demand. The global macroeconomic environment is, however, characterised by deceleration in global demand in 2022, with increasing headwinds from financial market volatility induced by monetary policy normalisation in the systemic advanced economies (AEs) and inflationary pressures from persisting supply chain disruptions. Accordingly, the MPC judges that the ongoing domestic recovery is still incomplete and needs continued policy support. It is in this context that the MPC has decided to keep the policy repo rate unchanged at 4 per cent and to continue with an accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

**Please find the attached documents on the same for your kind reference.**

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Warm Regards,

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