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

PHD Chamber Viewpoint

PHD Chamber welcomes the status quo and accommodative stance by Reserve Bank of India's Monetary Policy Committee. These decisions are well in line with the PHD Chamber's expectations and will strengthen the business and consumer sentiments as well as the economic recovery. RBI's MPC in its first Monetary Policy Statement of FY 2022-23 has decided to keep the repo rate unchanged at 4% and remain accommodative, while focusing on withdrawal of accommodation so that inflation is maintained within the target while supporting on growth.

Amid external developments of last 2 months, RBI has revised the projection for GDP growth for FY 2022-23 from earlier 7.8% to 7.2%. The GDP growth for Q1 FY2022-23 is projected at 16.2%, 6.2% for Q2, 4.1% for Q3, and 4.0% for Q4, assuming that Indian basket of crude oil at US$ 100 per barrel during 2022-23. The RBI's view on CPI inflation forecast for FY 2022-23 is revised upwards from 4.5% to 5.7%. However, it is inspiring to note that India has strong buffers, including large foreign exchange reserves, significant improvement in external sector indicators and strengthened financial sector, to sustain the country's economic recovery and growth.

In an effort towards normalisation of Liquidity Adjustment Facility (LAF) corridor, RBI has introduced Standing Deposit Facility (SDF) as floor for the LAF corridor. SDF will have 3.75% interest rate, while the fixed rate reverse repo (FRRR) rate is retained at 3.35%. We welcome the RBI's move to restore money market opening time to pre-pandemic time at 9:00 AM, with effect from April 18, 2022. Also, SDF, MSF will be available from 5:30 PM till midnight all days of the week.

To provide a push to the housing sector, the RBI has facilitated higher credit flow to the individual housing loans by extending the guidelines on rationalisation of the risk weights for individual housing loans till March 31, 2023. Earlier, the housing loans were rationalised in October 2020 by linking them only with loan to value (LTV) ratios for all new housing loans sanctioned up to March 31, 2022.

Other announcements such as enhancement of the present limit under Held to Maturity (HTM) category from 22% to 23% of NDTL till March 31, 2023; proposal to set up a committee to examine and review the current state of customer service in the RBI Regulated Entities; widening the availability of card-less cash withdrawal facility across all banks and ATM networks using the UPI; reduction in the net worth requirement of entities from ₹100 crore to ₹25 crore for participation of a greater number of non-bank Bharat Bill Payment Operating Units in the Bharat Bill Payment System (BBPS), among others, would catalyse the strengthening and deepening of financial sector along with making it more inclusive over time.

Going ahead, it is urged that the banking sector to transmit all the cuts in the repo rate by RBI during last 2 financial years to percolate the benefits to trade, industry and consumers for rejuvenating the demand and economic growth trajectory, going forward.

- The Monetary Policy Committee (MPC) met on 6th, 7th and 8th April 2022. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (April 8, 2022) decided to:

- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

- The marginal standing facility (MSF) rate and the Bank Rate remain unchanged at 4.25 per cent. The standing deposit facility (SDF) rate, which will now be the floor of the LAF corridor, will be at 3.75 per cent.

- 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.

- Since the MPC's meeting in February 2022, the global economic and financial environment has worsened with the escalation of geopolitical conflict and accompanying sanctions. Commodity prices have shot up substantially across the board amidst heightened volatility, with adverse fallouts on net commodity importers. Financial markets have exhibited increased volatility. Crude oil prices jumped to 14- year high in early March; despite some correction, they remain volatile at elevated levels. Supply chain pressures, which were set to ease, are rising again. The broadbased jump in global commodity prices has exacerbated inflationary pressures across advanced economies (AEs) and emerging market economies (EMEs) alike causing a sharp revision in their inflation projections. The global composite purchasing managers' index (PMI) eased to 52.7 in March from 53.5 in February with output growth slowing in both manufacturing and services sectors. World merchandise trade momentum has weakened.

- Looking ahead, the inflation trajectory will depend critically upon the evolving geopolitical situation and its impact on global commodity prices and logistics. On food prices, domestic prices of cereals have registered increases in sympathy with international prices, though record foodgrains production and buffer stock levels should prevent a major flare up in domestic prices. Elevated global price pressures in key food items such as edible oils, and in animal and poultry feed due to global supply shortages impart high uncertainty to the food price outlook, warranting continuous monitoring.

- The average crude oil price (Indian basket) of US$ 100 per barrel, inflation is now projected at 5.7 per cent in 2022-23, with Q1 at 6.3 per cent; Q2 at 5.8 per cent; Q3 at 5.4 per cent; and Q4 at 5.1 per cent.

- The real GDP growth for 2022-23 is now projected at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent; and Q4 at 4.0 per cent, with risks broadly balanced.

- The MPC is of the view that since the February meeting, the ratcheting up of geopolitical tensions, generalised hardening of global commodity prices, the likelihood of prolonged supply chain disruptions, dislocations in trade and capital flows, divergent monetary policy responses and volatility in global financial markets are imparting sizeable upside risks to the inflation trajectory and downside risks to domestic growth.

Please find the attached documents on the same for your kind reference. Also, the detailed Report on Monetary Policy, April 2022 can be accessed at:
https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/MPR0804223897C8D9006C4981AEBA943DEDDD6F98.PDF

Please contact for any query related to this mail to Ms Shivani Mehrotra, Research Officer at shivani.mehrotra@phdcci.in, with a cc to Dr S P Sharma, Chief Economist | DSG at spsharma@phdcci.in and Ms Kritika Bhasin, Sr. Research Officer at kritika.bhasin@phdcci.in, PHD Chamber of Commerce & Industry.

Warm Regards,

Dr S P Sharma

Chief Economist | DSG
PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016, India
Tel: +91 49545454
Fax: +91 11 26855450
Email: spsharma@phdcci.in
Website: www.phdcci.in
Follow us on