RBI's Monetary Policy Review

8th April 2022

RBI Policy Stance

- MPC decided to remain accommodative while focusing on withdrawal to ensure that inflation remains within the target going forward while supporting growth.
- RBI's decision to maintain an accommodative stance was done with a unanimous vote.

Policy Rates	Pre Policy	Post Policy	Status
Repo	4.00%	4.00%	Unchanged
Reverse Repo	3.35%	3.35%	Unchanged
MSF	4.25%	4.25%	Unchanged
Bank Rate	4.25%	4.25%	Unchanged
CRR	4.00%	4.00%	Unchanged
SLR	18.00%	18.00%	Unchanged

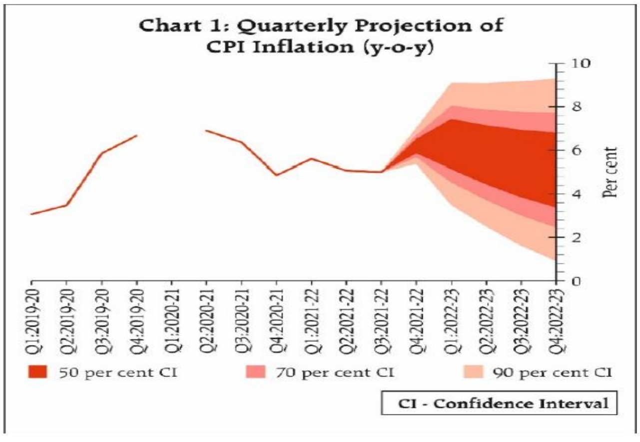
Key Highlights

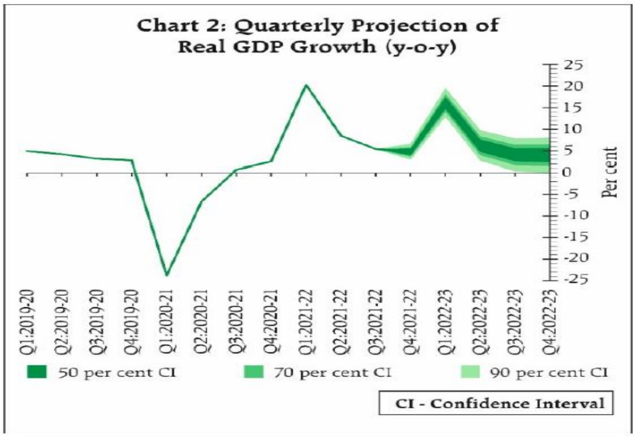
- The liquidity in the system remains ample with average daily absorption under LAF at ₹7.5 lakh crore in March marginally lower than ₹ 7.8 lakh crore in January- February 2022.
- The central bank iterated that they would have a gradual and calibrated stance on withdrawal of liquidity over multi year time frame.
- The inflation forecast for FY23 is at 5.70% higher than earlier forecast of 4.50% in Feb 2022 policy.
- Growth forecast for FY23 is at 7.20% lower than earlier forecast of 7.80% in Feb 2022 policy.
- Despite sharp rise in commodity prices, current account deficit (CAD) is expected to remain at sustainable levels which can be financed with normal capital flows.
- RBI has introduced Standing Deposit Facility (SDF) as the floor of the LAF corridor. SDF rate would be 25bps below the policy rate. Marginal Standing Facility (MSF) would be at the upper end of the LAF corridor. SDF and MSF would be used as financial tools to absorb and inject liquidity.

Time Frame	Projection – Inflation		Projection - Real GDP	
	Feb-22	Apr-22	Feb-22	Apr-22
Q1 FY 23	4.90%	6.30%	17.20%	16.20%
Q2 FY 23	5.00%	5.80%	7.00%	6.20%
Q3 FY 23	4.00%	5.40%	4.30%	4.10%
Q4 FY 23	4.20%	5.10%	4.50%	4.00%
FY 23	**4.50%**	**5.70%**	**7.80%**	**7.20%**

RBI Repo Rate Trajectory

RBI's Projection on Inflation and Growth





RBI's Assessment of Global and Domestic Economy

- Although during Feb 2022 meeting, the MPC had projected a moderating path of inflation during 2022-23 but heightened geopolitical tensions since end Feb has clouded the inflation outlook for the year. Higher wheat prices, edible oil prices due to supply shortages and export restrictions combined with spike in international crude prices poses substantial risk to inflation. Hence inflation forecasts have been revised upwards in April policy.

- The economic growth was brightening up in Feb 2022 after an initial slowdown witnessed in Q3 FY22 and Jan 2022 because of Omicron variant. Escalating geopolitical tensions, renewed Covid 19 infections in some major countries and protracted shortages of critical inputs such as semiconductors and chips now post some downside risks to growth.

- The surveys done by the RBI reveal that capacity utilization is rising, and the outlook on business and consumer confidence remain in optimistic territory. Going forward robust Rabi output should support recovery in rural demand while a pick-up in contact intensive services should help in strengthening urban demand.

- Monetary policy would continue to be guided by its primary mandate of price stability over the medium term, while also ensuring a strong sustained economic recovery and financial stability.

Outlook

- The MPC held its policy rate but indicated its focus on withdrawing accommodation to ensure that inflation remains within the target going forward – Dial back from its dovish tone earlier.

- We believe the increase in commodity prices and supply side disruptions pose two challenges – a) margin compression for corporates if price hikes are not taken on timely basis and b) derailed consumption for households if prices become too high. In lieu of these factors, we believe government policies and spending and export opportunities would be the primary drivers of GDP.

- The direction of yields going forward would be dictated by policy tightening across economies, inflation outlook and how the government borrowing program (in H1FY23 GOI plans to borrow ~59% of FY23 BE of gross borrowing and ~20% higher than the amount raised in H1FY22) is supported by RBI.

- At the current juncture we continue to maintain the view to stay in high carry portfolios with high grade underlying assets. Assets in the 3–7-year segment continue to remain attractive, hence roll down funds, SDL funds, high grade credits continue to remain attractive at this point in time.

- RBI's commitment to gradual and calibrated way of liquidity management and additional measures like increase in Held to Maturity (HTM) limit for banks from 22% to 23% of NDTL till 31st March 2023 may continue to provide comfort to market participants.

- We believe equity market to be volatile this year because of various factors like policy normalization by FED, impact on corporate earnings on account of rising prices and prospects of slowing demand, geopolitical tensions, etc. We continue to focus on funds which benefit from domestic growth led by government spending and export opportunities or transformation to "war economy" and recommend our investors to add to equities in large declines. Allocation to equities should be consistent with the risk profile of an investor and the holding period should be 3-5 years.

- The next policy statement is due on 8th June 2022.

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