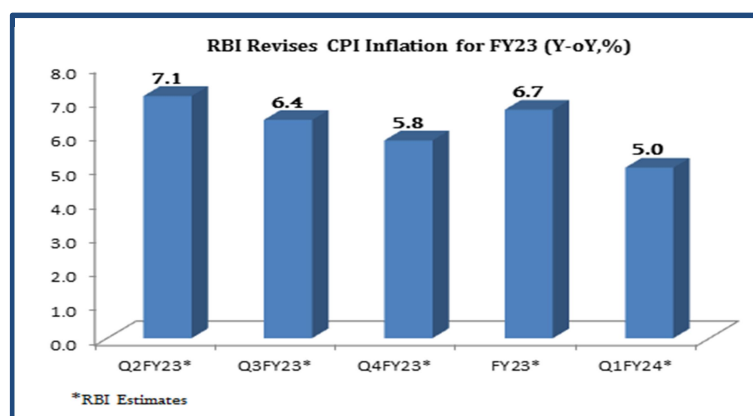
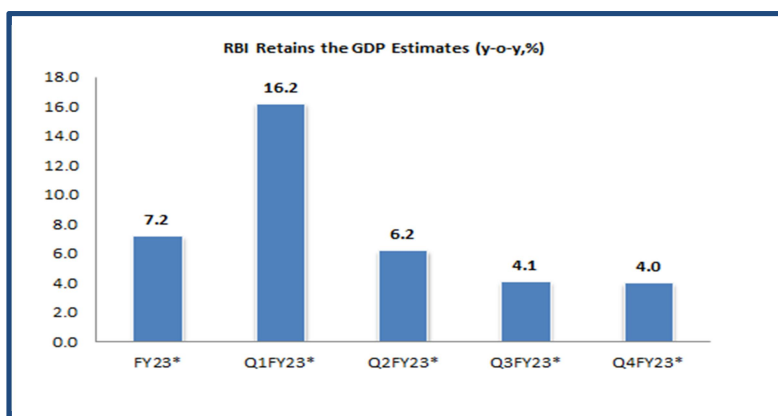


## **The Monetary Policy retained its withdrawal of accommodative stance and prioritized inflation over growth.**

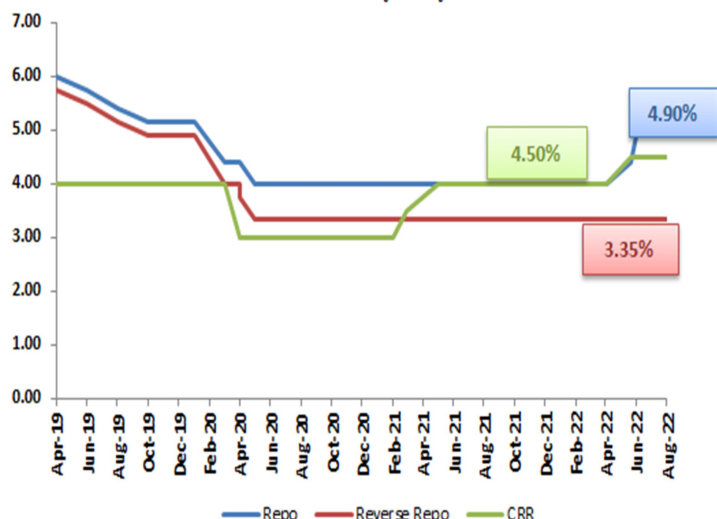
The Monetary Policy Committee (MPC) at its 3<sup>rd</sup> Bi-Monthly Monetary Policy meet decided to increase the policy repo rate under the Liquidity Adjustment Facility (LAF) by 50 basis points to 5.40% with immediate effect. As a result, the Standing Deposit Facility (SDF) rate stands adjusted at 5.15% and the Marginal Standing Facility (MSF) rate and the Bank Rate at 5.65%. This is the third straight increase in rates, with the first rate hike of 40bps in May followed by 50bps in June. **The MPC decided unanimously to increase the rate and to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.**

### **Key Highlights**

- **RBI Projection of GDP growth for FY22-23 was retained at 7.2%, with Q1 at 16.2%, Q2 at 6.2%, Q3 at 4.1% and Q4 at 4% with risk broadly balanced. Real GDP growth for Q1FY23-24 is projected at 6.7%.** The progress of southwest monsoon and *kharif* sowing to support rural consumption and urban consumption is expected to benefit from the demand for contact-intensive services, better performance of the corporates and improving consumer optimism.
- The CPI inflation in June 2022 was the sixth consecutive month when it remained at upper tolerance level of 6%. Looking ahead the inflation trajectory continues to be heavily dependent on the evolving geopolitical developments, international commodity market dynamics, global financial market developments and spatial and temporal distribution of southwest monsoon **For FY22-23, CPI inflation is projected at 6.7%, with Q2 at 7.1%, Q3 at 6.4%, Q4 at 5.8% and Q1FY24 at 5.0%.**
- The above estimate of inflation was considered based on assumption of a normal monsoon in 2022 and average crude oil price (Indian Basket) of US\$105 per barrel.
- Overall system liquidity continues in surplus with average daily absorption under LAF at Rs.3.8 lakh crore during June-July.
- **Money Supply (M3) and bank credit from commercial banks rose 7.9% YoY and 14.0% YoY respectively. As on 15<sup>th</sup> July, 2022, India's foreign exchange reserves stood at US\$573.9 Bn.**
- The RBI has allowed all Standalone Primary Dealers (SPDs) to offer all foreign exchange market-making facilities as currently permitted to Category-I authorized dealers subject to prudential norms. This would give foreign exchange consumers access to a wide range of market makers to manage their forex risk.
- The offshore Rupee Overnight Indexed Swap (OIS) market will allow SPDs to conduct transactions with NRIs and other market makers. This action will be a supplement to the similar measure taken for banks this February. These steps should end the separation of off-shore and on-shore OIS markets and enhance price discovery.
- RBI has suggested forming a committee to conduct thorough analysis of Mumbai Interbank Outright rate (MIBOR), including the need for transition to an alternate benchmark and recommend the most appropriate forward.
- In wake of increased trend of outsourcing of activities by Regulated entities, RBI would soon release a draft Master direction on Managing risks and code of conduct in outsourcing financial services for inputs from stakeholder in order to harmonize and consolidate the guidelines
- Users in India now have a completely new bill paying experience thanks to Bharat Bill Payment System (BBPS) where 20000 billers are part of the system and more than 8 crs transactions are processed monthly. RBI now proposes to enable cross-border inward bill payments which would immensely help senior citizens.

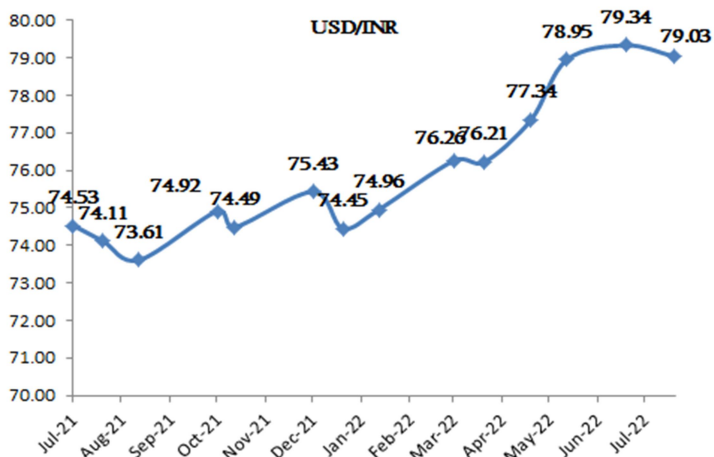


RBI's Monetary Policy Stance

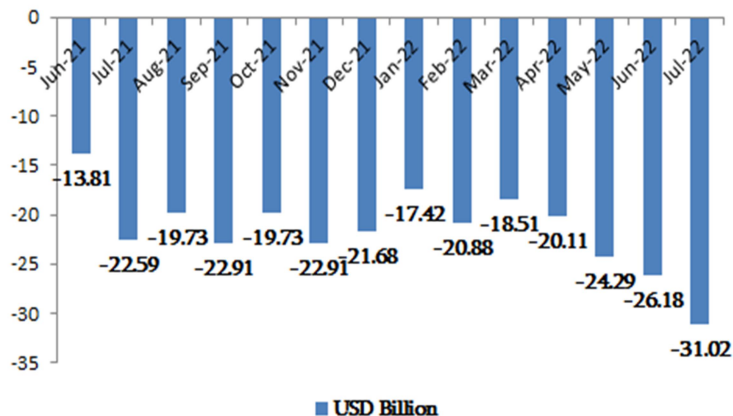


- Merchandise exports grew in Apr-July 2022 while merchandise imports surged to record high on back of elevated global commodity prices. Consequently the trade deficit expanded to US\$100 bn. Provisional data indicates that the demand for services exports, especially IT services remained buoyant in Q1 despite global uncertainty. Export of travel and transport services also improved in Q1FY23 on a YoY basis.
- The current account deficit is sustainable at current levels which can be financed by normal capital flows. The foreign exchange reserves of US\$573.9 billion acts as a cushion for almost ~10 month of oil imports going by current run rate of \$60 billion.
- The Indian rupee (INR) depreciated against the US dollar by 4.7% YTD amidst large portfolio outflows to the tune of US\$13.3 bn.
- CAD for the month of June stood at USD (-) 26.18 bn. This has widened to USD (-) 31.02 bn in July. Widening of CAD had led to depreciation of nominal exchange rate, however, monthly export figures show that, despite the loss of price competitiveness, India's export continued to surge, driven by high global demand.
- The spillovers from geopolitical shocks are imparting considerable uncertainty to the inflation trajectory. Moreover recent food and metal prices have come off their peaks and international crude oil prices have eased from its recent peaks showing concerns over global demand slowing down. In domestic front the shortfall in paddy sowing however is to be watched closely although stocks of rice are well above the buffer norms. MPC has decided to stay focused on domestic inflation data and take further calibrated monetary policy action if needed to contain inflation.

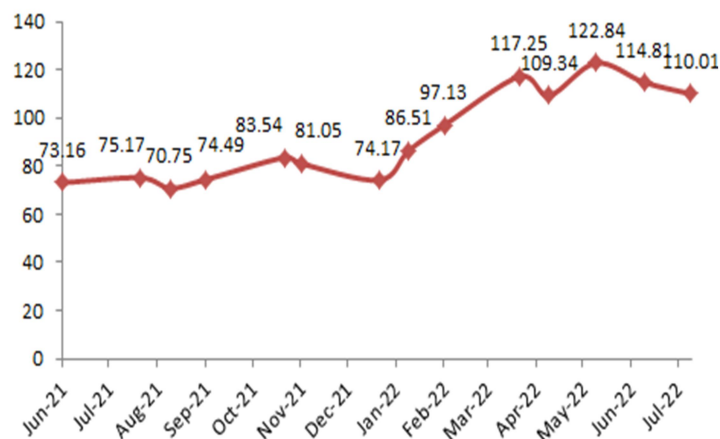
USD/INR



India's Trade Deficit



Brent Crude price in USD per barrel



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