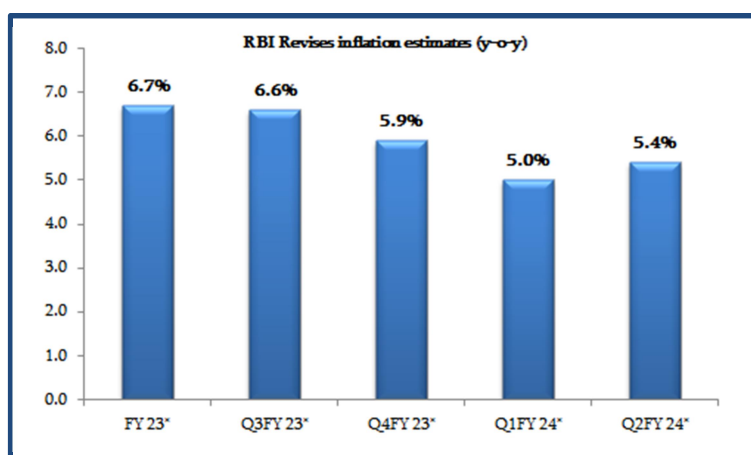
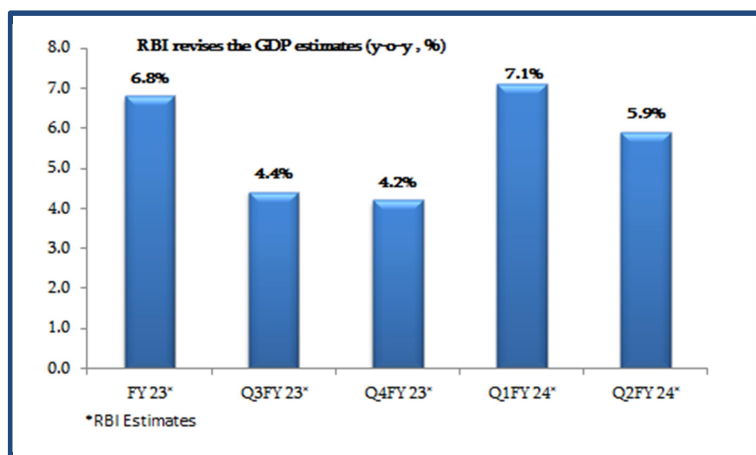


The Monetary Policy retained its withdrawal of accommodative stance while supporting growth.

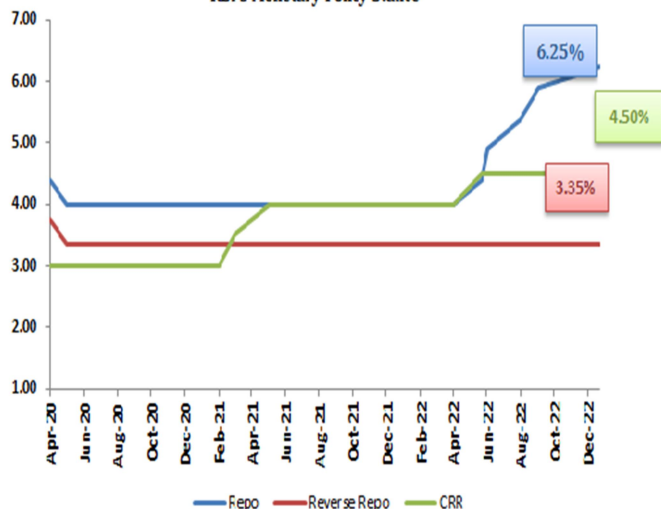
The Monetary Policy Committee (MPC) at its 5th Bi-Monthly Monetary Policy meet (5th, 6th & 7th December 2022) decided to increase the policy repo rate under the Liquidity Adjustment Facility (LAF) by 35 basis points to 6.25% with immediate effect. As a result, the Standing Deposit Facility (SDF) rate stands adjusted at 6.00% and the Marginal Standing Facility (MSF) rate and the Bank Rate at 6.50%. The key rate has now been raised by 225 bps since May and is the fifth straight increase in rates by the panel. **The Monetary policy remained focused on withdrawal of accommodative stance. The policy maker opted for a smaller rate increase to support growth and ensure inflation remains within the target of 4% with a margin of 2% on either side.**

Key Highlights

- The GDP in Q2FY23 grew by 6.3% y-o-y. RBI has revised the projection of GDP growth for FY23 at 6.8%, Q3FY23 at 4.4%, Q4FY23 at 4.2%, Q1FY24 at 7.1% and Q2FY24 it is projected at 5.9%. The domestic economic activity was driven by continued gain in strength in October driven by private consumption and investment.
- The CPI inflation eased to 6.77% in October 2022 from 7.41% in September supported by slower rise in food prices and a strong base effect. The core CPI (i.e., excluding food & fuel) inflation still remained sticky and elevated. Going forward, food inflation is likely to moderate with bumper Rabi harvest. **The RBI retained its inflation projection for FY23 at 6.7%, with upward revision in Q3 at 6.6%, Q4 at 5.9%, and Q1FY24 at 5.0% and Q2FY24 5.4%.**
- Global commodity prices, especially crude oil have undergone downward correction by 12% at \$83.3 as on Nov 29th, but uncertainties continue to surround the near term outlook in view of the prolonged geo-political hostilities. RBI has assumed crude price of (Indian basket) \$100 per barrel while projecting inflation going forward.
- Overall system liquidity remained surplus with average daily absorption under LAF at Rs.1.4 lakh crore during October-November 2022 down from Rs.2.2 lakh crore during August-September.
- The RBI's July 6, 2022 announcement of efforts to increase foreign exchange inflows has resulted in new external commercial borrowing (ECB) agreements being signed for a total of US\$ 8.6 billion.
- RBI has undertaken gradual transition towards normal liquidity operations and decided to restore market hours from 9.00 am to 5.00 pm, for call/notice/term money, CPs, CDs and repo in corporate bond segments as well as for rupee interest rate derivatives
- The weighted average lending rates (WALRs) on fresh and outstanding rupee loans have increased by 117bps & 63bps respectively and on the deposit side the weighted average term deposit rate on fresh and outstanding deposits has increased by 150 bps and 46bps respectively during the period May-October.
- RBI has decided to extend the dispensation of the enhanced HTM limit of 23% till March 31, 2024 in order to give banks more freedom in managing their investment portfolios. Starting with Q1FY25, the HTM limitations would be gradually restored from 23% to 19.5%.
- The addition of single-block and multiple-debit features would further improve UPI's capabilities. With this feature, a customer can set aside money in his or her account for particular uses that can be debited as needed. This would make payments for securities investments, particularly through the Retail Direct platform and online sales simpler.
- All kinds of payments and collections, both regular and non-recurring, as well as for all categories of billers (businesses and individuals), are now included in the expanded scope of the BBPS (Bharat Bill Payment System).

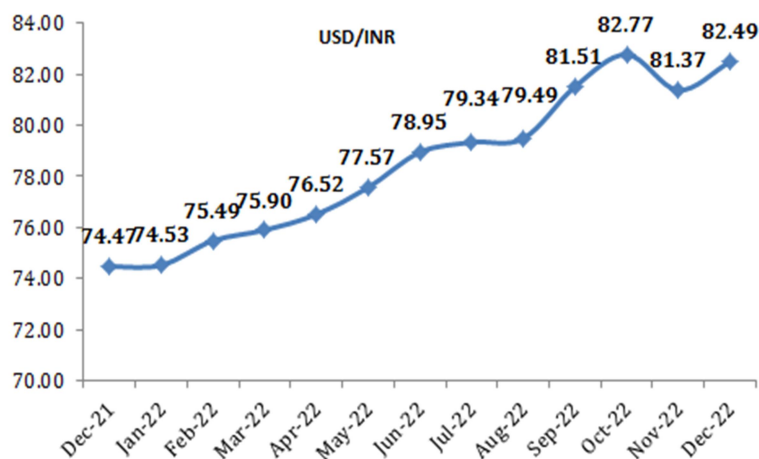


RBI's Monetary Policy Stance

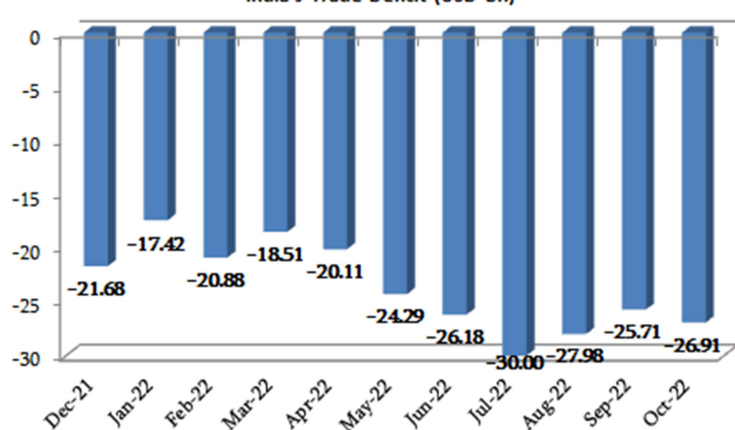


- The risk associated with gold prices in international markets cannot be hedged by resident entities in India till date. RBI has now allowed resident entities to hedge their price risk of their gold exposures on recognized exchanges in the IFSC. This measure will benefit importers/exporters of gold such as jewelers and industries which use gold as an intermediate or raw material.
- India's trade deficit widened to \$26.91 billion in October 2022 from \$25.71 billion in September, compared to market expectations of a \$26 billion gap. Exports fell to \$29.78 billion from \$35.45 billion in the previous month, the lowest since February 2021.
- On financial side, net FDI flows remained robust at US \$22.7 bn. As on 2nd December, 2022, India's foreign exchange reserves stood at US\$561 Bn an increase of US 23.5 bn led by equity flows since last meet.
- The story of the INR has been one of India's resilience and stability. On a y-o-y basis the INR depreciated by 7.7% to 81.4 as on Nov 30th. The INR's movement has been least disruptive relative to its peers.
- Even after revision of RBI's growth projection for FY23 at 6.8%, India will still be among the fastest growing major economies in the world. India's financial system remains robust and stable. Banks and corporates are healthier than before the crisis and bank credit is growing in double digits for 8 months now. Green transition, reconfiguration of supply chains and logistics, production-linked incentive schemes, digital banking and financial services, and innovative technologies offer immense opportunities for the Indian economy. RBI's course of future policy will duly consider new data releases and the evolving outlook of the economy as well as the effects of its past policy actions.

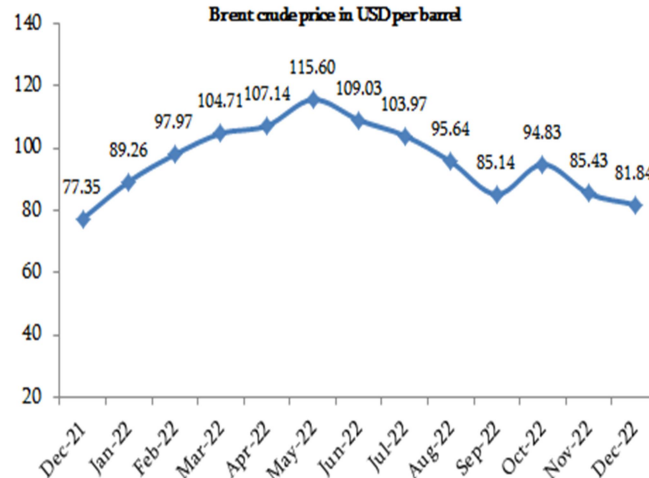
USD/INR



India's Trade Deficit (USD Bn)



Brent crude price in USD per barrel



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