Key Policy rates Unchanged & to continue with the 'Accommodative' Stance as long as necessary to revive and sustain growth.

RBI Monetary Policy Committee (MPC) which met on 8th, 9th and 10th February, 2022 voted to keep the key policy rates unchanged at 4% based on the assessment of the macroeconomic situation and retaining its accommodative stance as long as necessary to revive and sustain growth by keeping inflation within the target going forward. Five members voted in favor of the stance. **The MPC has projected GDP growth outlook for FY23 at 7.8% while retaining FY22 GDP at 9.2%, whereas the projection for CPI inflation has been kept unchanged for FY22 to 5.3% and Q4 FY22 at 5.7% and projected CPI for FY23 at 4.5%.**

The Indian economy has remained resilient and in better position to meet the credit demands as recovery takes hold and investment activity picks. At this juncture the domestic monetary policy is primarily attuned to the evolving inflation and growth dynamics and remains watchful of spillovers from uncertain global developments and divergent monetary policy response.

Following are the policy measures and vital announcements by the RBI:

- The Monetary Policy Committee (MPC) cut the policy repo rate by 115 basis points (bps) during February to May 2020, on top of a reduction of 135 bps in the preceding twelve months. **Since then, the MPC has maintained status quo on the policy repo rate keeping it unchanged at 4 %.**
- Accordingly, **Reverse Repo Rate** under the LAF determined with a spread of 65 basis points below the Repo rates remain unchanged to **3.35%.** Marginal Standing Facility **(MSF) and the Bank rate** both determined with a spread of 25 basis points above the Repo rate also remain unchanged to **4.25%.** On the liquidity front, RBI left the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) of scheduled Banks unchanged at 4.00% and 18.00% of their net demand and time liability (NDTL) respectively.
- **Indian economy to witness 9.2% real GDP growth in FY22 after contracting in FY21.** This implies that overall economic activity has recovered past the pre-pandemic levels. Almost all indicators show that the economic impact of the second wave was much smaller than that experienced in full lock down.
- Downside risks to the outlook for FY23 have risen with the emergence of third wave due to Omicron, lagging private consumption, persistent increase in international commodity prices, surge in volatility of global financial markets and global supply bottlenecks. **Considering all these factors, real GDP growth is projected at 7.8% for FY23 with Q1FY23 at 17.2%, Q2 at 7.0%, Q3 at 4.3% and Q4 at 4.5%.**
- CPI inflation has moved along the expected line and going forward vegetable prices are expected to ease further on arrival of fresh winter crop and the outlook for Rabi crop bodes well for agriculture and rural demand.
- **India's manufacturing activity remained in the expansionary zone since January 2021** and the latest IHS Markit India Manufacturing PMI was down to 54.0 in January 2022 from 55.5 in December 2021 amid pandemic uncertainty and inflation expectations.
- **The IHS Markit India Services PMI moderated** in January 2022 to 51.5 from 55.5 in December due to escalation of the pandemic and reintroduction of curfews that impacted growth across the service sector.
- India's **foreign exchange reserves** increased by US$ 55 billion in FY22 (upto February 4, 2022) to US$632 billion which has more than doubled since the taper episode of 2013 and crossed 100% of external debt accompanied by a comfortable current account position during FY21-22 so far which provides cushion against any potential impact of global shock. It also covers almost 13 months of projected oil imports for FY22.
- **Globally** inflation continues to be multi decade high in number of countries and hardening crude oil prices poses upside risk to the inflation outlook. Euro area inflation shot up to multi-decade high at 5.1% in January 2022, US CPI inflation jumped four decade high to 7.0% in December 2021 due to high food and energy prices.
- **The Indian rupee (INR) depreciated** against the US dollar on February 8, 2022 by 2.5 % Y-o-Y, amidst net sell-off in the equity market and concerns over rising crude oil prices.

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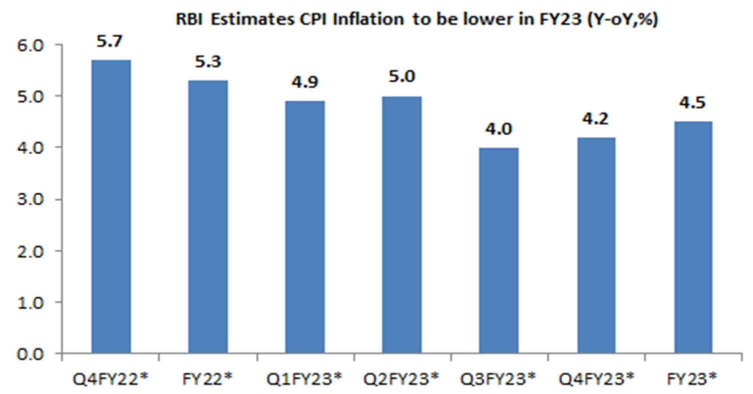
RBI's Sixth Bi-monthly Monetary Policy (2021-22)

February10, 2021



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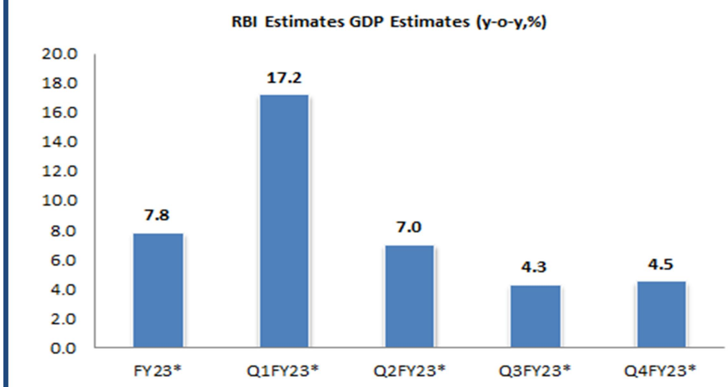

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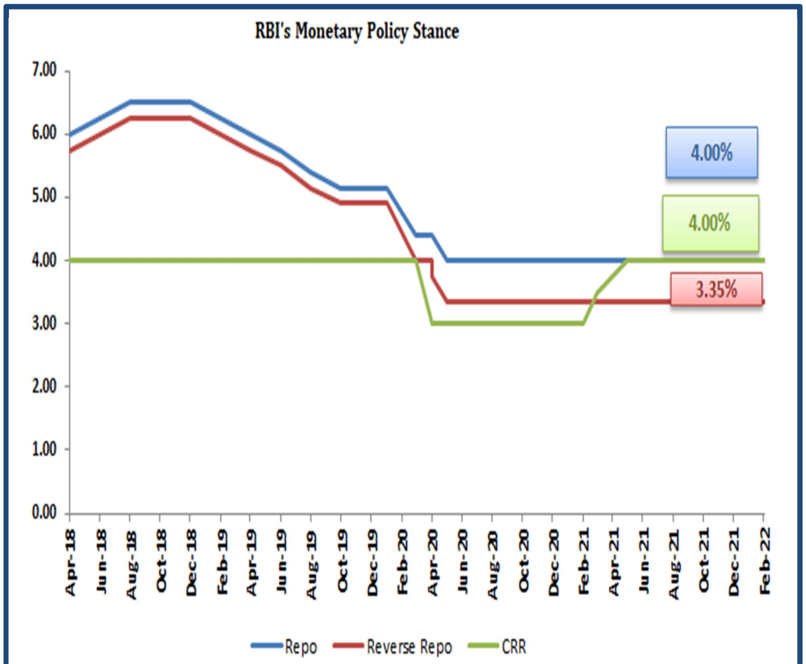
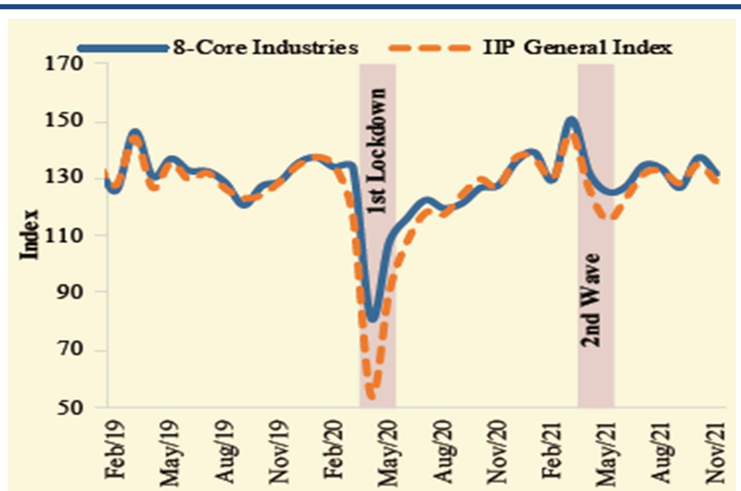
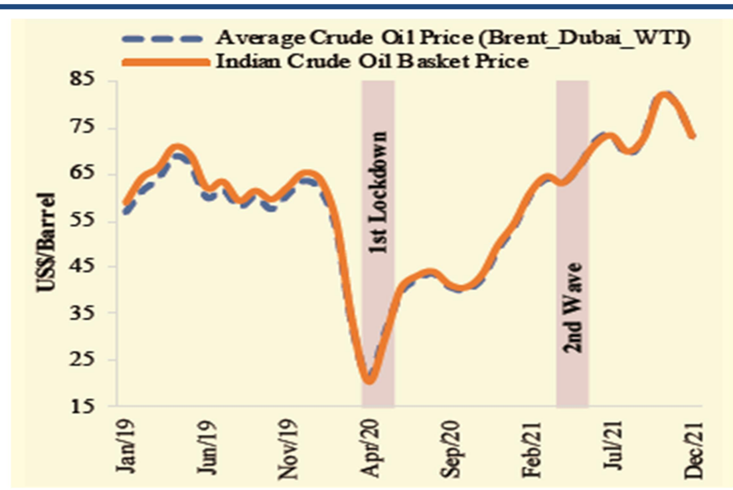


- Headline CPI inflation y-o-y for the month of December 2021 edged up to 5.59 % from 4.91 % a month ago, as per the data released by the National Statistical Office (NSO) on December. This was highest rate since July 2021, remaining within the central bank's 2-6% target range for a sixth consecutive period.
- Industrial production remained in the expansionary zone since January 2021 except for one month and core industry indices have followed the same and went past the their pre-pandemic level in November FY19.
- The renewed surge in international Brent crude oil prices that had hit $97/bbl on February 7, 2022 is the highest since 2014. The hardening of oil prices however presents major upsides risk to the inflation target set by RBI for FY23. This rapid increase in fuel prices is also expected to retreat in 2022-23 as supply-demand imbalances recede further. The GDP growth estimates by CSO for FY23 has assumed crude oil prices at $70-$75/bbl in FY23.





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