10 February 2022

Key Highlights - RBI Policy Measures

RBI's Stance	→	Accommodative

Key Highlights

- **Policy rates, Reserve Ratio and Stance kept unchanged**
- **Growth** target for **FY23** kept at **7.8%**
- Projected **inflation** for **FY23 at 4.5%** which is lower than expected
- This policy too the **focus was clearly on supporting growth**
- RBI Policy this time again being **more dovish than expected**
- Liquidity management being the focal point for RBI – **14-day variable reverse repo (VRRR) and repo to be the key liquidity management tool**

Policy Rates / Reserve Ratio	Prior Policy	10 Feb 22	Status
Repo Rate	4.00%	4.00%	⟷
Reverse Repo Rate	3.35%	3.35%	⟷
MSF	4.25%	4.25%	⟷
Bank rate	4.25%	4.25%	⟷
CRR	4.00%	4.00%	⟷
SLR	18.00%	18.00%	⟷

The RBI for the **10th consecutive bi – monthly Monetary Policy Committee (MPC) Meeting kept the key policy rates unchanged**, on unexpected lines. RBI had last revised its policy rate on 22 May, 2020, in an off-policy cycle to perk up demand by cutting the interest rate to a historic low. MPC voted unanimously for keeping the interest rate unchanged. However, with respect to the stance though it decided to **continue with its "accommodative" stance "as long as necessary"** to support growth and keep inflation within the target, the decision was not unanimous.

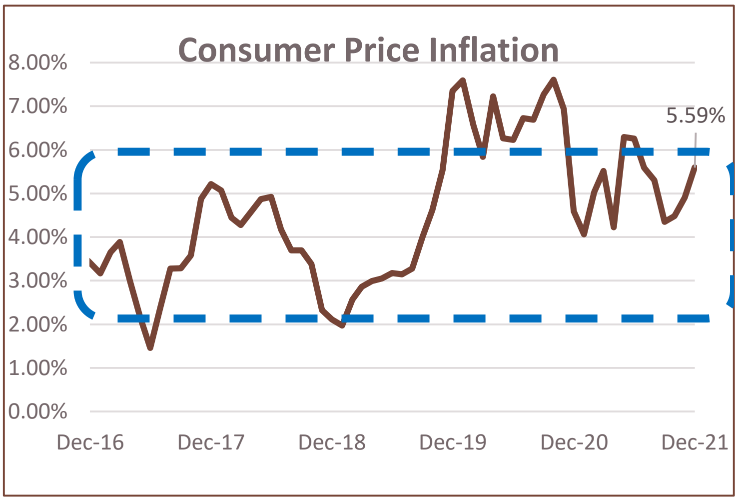
Growth Outlook

- **Government's thrust on capital expenditure and exports** are expected to enhance productive capacity and strengthen aggregate demand, which would also **crowd in private investment**.
- The outlook on **business and consumer confidence** remain in optimistic territory, which should support investment as well as consumption demand.
- Thus the **RBI projected the Real GDP growth at 9.2% in 2021-22**, taking it modestly above the level of GDP in 2019-20.

Period	FY2020-21	FY2022-23	Q1FY2022-23	Q2FY2022-23	Q3FY2022-23	Q4FY2022-23
Growth Projection	**9.2%**	**7.8%**	17.2%	7.0%	4.3%	4.5%

Inflation Outlook

- **CPI inflation is projected at 5.3% during 2021-22**, in line with the number projected earlier. Medium-term target for consumer price index (CPI) inflation remains at 4% within a band of +/- 2%, while supporting growth.
- The hardening of crude oil prices, presents a major upside risk to the inflation outlook. **Core inflation remains elevated at tolerance testing levels**, although the continuing pass through of tax cuts would help to moderate input cost pressures to some extent. The **transmission of input cost pressures to selling prices remains**



Source: RBI DBIE

muted in view of the continuing slack in demand. Further, as risks from Omicron wane and supply chain pressures moderate, there could be some softening of core inflation.

- The **conduct of domestic monetary policy is primarily attuned to the evolving inflation and growth dynamics** even as we remain watchful of spill overs from the uncertain global developments and divergent monetary policy responses.

Period	FY2020-21	Q4FY2021-22	FY2022-23	Q1FY2022-23	Q2FY2022-23	Q3FY2022-23	Q4FY2022-23
Inflation Projection	**5.3%**	5.7%	**4.5%**	4.9%	5.0%	4.0%	4.2%

Key Measures Announced

- Liquidity management being the focal point for RBI – **14-day variable reverse repo (VRRR) and repo to be the key liquidity management tool**; therefore, banks now need not worry about potential cashflow mismatches in case they lend for longer tenor.
- Extension of On-tap Liquidity Facilities for **Emergency Health Services and Contact-intensive Sectors.**
- **Voluntary Retention Route (VRR)** - Enhancement of Limits from the current Rs. 1.5 lakh cr to Rs. 2.5 lakh cr
- Review of **Credit Default Swaps (CDS)** Guidelines.
- Permission for Banks to deal in **Foreign Currency Settled - Rupee Derivatives Market.**
- Enhancement of the Cap under **e-RUPI (Prepaid Digital Vouchers using UPI)** from the current Rs. 10,000 to Rs, 1 Lakh per voucher and permit.
- Enabling Better Infrastructure for MSME Receivables Financing – Increasing NACH Mandate Limit for **TReDS Settlements.**

Summary

This policy the **focus was clearly on supporting growth** and even as fears over inflation flare up on the back of high commodity prices and global changes in interest rate policy are dynamic it projected a **lower than expected number for next fiscal inflation.**

Contrary to market expectation, we had in our post policy review note in December stated that **"though we do not rule out a possibility of a near term rate hike, we believe it would not be immediate near future"**, nonetheless with evolving COVID-19 situation across the globe and **RBI Policy this time again being more dovish than the market expected.** There is a possibility that the **rate hikes may not be that fast both domestically and globally as market is assuming to be**, however investors should expect that interest rates on both deposits rates and lending rates will rise in the calendar year, albeit gradually.

With the RBI stance of **taking out excess liquidity from the system** we continue to maintain our stance of **investing in shorter end of the curve through Mutual fund** categories like **Low Duration / Floating Rate Funds**. For **longer term investments Short Term Funds / Corporate Bond Funds** continue to be our preferred categories. Along with MF good quality **Corporate Fixed Deposits and Bonds** can be looked at allocation in the debt portfolio for diversification and enhancing overall return.

10 February 2022

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