ASSOCHAM

Change through Knowledge

RBI Monetary Policy Statement

December 2022

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- We appreciate the Monetary Policy Committee Members of the Reserve Bank of India (RBI) under the Chairmanship of Shri Shaktikanta Das, Hon'ble Governor, Reserve Bank of India, for an announcement on MPC on 07th December 2022 and on the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 35 basis points to 6.25 per cent with immediate effect.
- Consequently, the standing deposit facility (SDF) rate stands adjusted to 6.00 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.50 per cent. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Key Takeaways

Global Economy

- Global economic growth is skewed to the downside.
- Inflation remains elevated and persistent across countries as they grapple with food and energy price shocks and shortages. However, there are some signs of moderation in price pressures, which have raised expectations of an easing in the pace of monetary tightening.
- Capital flows to emerging market economies (EMEs) remain volatile and global spillovers pose risks to growth prospects.

Domestic Economy

- In the agricultural sector, a pick-up in rabi sowing is supported by the good progress of the north-east monsoon and above average reservoir levels. In addition to this, the activity in the industry & services sectors is in expansion mode, as reflected in purchasing managers' indices (PMIs) and other high frequency indicators.
- Growth in non-oil non-gold imports decelerated.
- CPI inflation moderated to 6.8 per cent (y-o-y) in October 2022 from 7.4 per cent in September, with favorable base effects mitigating the impact of pick-up in price momentum in October.
- Food inflation softened, aided by easing inflation in vegetables and edible oils, despite sustained pressures from prices of cereals, milk and spices.
- The overall liquidity remains in surplus, with average daily absorption under the liquidity adjustment facility (LAF) at ₹1.4 lakh crore during October-November as compared with ₹2.2 lakh crore in August-September.
- India's foreign exchange reserves were placed at US$ 561.2 billion as on December 2, 2022.

Outlook

- The inflation trajectory going ahead would be shaped by both global and domestic factors. In case of food, while vegetable prices are likely to see seasonal winter correction, prices of cereals and spices may stay elevated in the near-term on supply concerns. High feed costs could also keep inflation elevated in respect of milk.
- Adverse climate events both domestic and global – are increasingly becoming a significant source of upside risk to food prices. Global demand is weakening. Unabating geopolitical tensions continue to impart uncertainty to the food and energy prices outlook.
- The correction in industrial input prices and supply chain pressures, if sustained, could help ease pressures on output prices but the pending pass-through of input costs could keep core inflation firm. Imported inflation risks from the US dollar movements need to be watched closely.
- On growth, the agricultural outlook has brightened, with the prospects of a good rabi harvest.
- The economy, however, faces accentuated headwinds from protracted geopolitical tensions, tightening global financial conditions and slowing external demand.

Additional Measures

- *SLR Holdings In Held To Maturity (HTM) Category:* To provide further flexibility to banks in managing their investment portfolios, it has been decided to extend the dispensation of enhanced HTM limit of 23 per cent up to March 31, 2024. Banks will now be allowed to include securities acquired between September 1, 2020 and March 31, 2024 in the enhanced HTM limit. The HTM limits would be restored from 23 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2024.

- *Enhancing The Mandates of Unified Payments Interface (UPI):* The UPI has emerged as the most popular retail payments system in India. Therefore, RBI has enhanced the Unified Payments Interface (UPI) processing mandates with single block and multiple debits.

- *Expanding The Scope of Bharat Bill Payment System (BBPS):* At present BBPS, handles recurring bill payments for merchants and utilities and does not cater to non-recurring bills. Therefore, the scope of BBPS is being enhanced to include all categories of payments and collections, both recurring and non-recurring, and for all category of billers (businesses and individuals).

- *Hedging Of Gold In The International Financial Services Centre (IFSC)*: Resident entities in India are currently not permitted to hedge their exposure to gold price risk in overseas markets. With a view to providing greater flexibility to these entities to hedge the price risk of their gold exposures, resident entities will now be permitted to hedge their gold price risk on recognised exchanges in the IFSC. This measure will benefit importers/exporters of gold such as jewellers and industries which use gold as an intermediate or raw material.