

RBI Monetary Policy Statement

April 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 08th April 2022 and based on an assessment of the current macroeconomic situation and the outlook. It voted unanimously to keep the policy repo rate unchanged at 4 per cent. The MPC also decided unanimously to remain accommodative while focussing on withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting growth. The marginal standing facility (MSF) rate and the Bank rate remain unchanged at 4.25 per cent. Further, it has been decided by the Reserve Bank to restore the width of the Liquidity Adjustment Facility (LAF) corridor to 50 basis points, the position that prevailed before the pandemic. The floor of the corridor will now be provided by the newly instituted standing deposit facility (SDF), which will be placed 25 basis points below the repo rate, i.e., at 3.75 per cent.

We are pleased to share that today's announcements included some of the key recommendations made by the ASSOCHAM's Expectation & Recommendation on RBI Bi-Monthly Monetary Policy Statement for 2022-23.



Assessment of Growth and Inflation

- According to the second advance estimates released by the National Statistical Office (NSO) on February 28, 2022, real GDP rose by 8.9 per cent in 2021- 22. However, private consumption and fixed investment- key drivers of domestic demand- remain subdued, with these two components being only 1.2 per cent and 2.6 per cent, respectively, above their pre-pandemic levels. Contact intensive services still trail the 2019-20 level on the supply side. Nevertheless, the Indian economy is steadily reviving from its pandemic induced contraction.
- During 2021-22, weakness in economic activity resurfaced in Q3 and was exacerbated by the Omicron variant's emergence in January 2022. A gradual turnaround has been noticed during February, although in March 2022, a mixed picture was seen. Some contact-intensive activities have regained traction amidst declining infections and the removal of restrictions. With the easing of restrictions, domestic air passenger traffic rebounded in March. According to our surveys, consumer confidence is improving, and households' optimism in outlook for the year ahead has strengthened with an uptick in sentiments. Business confidence is in the optimistic territory and supportive of revival in economic activity. On the other hand, passenger vehicle sales and registrations continue to contract, though at a moderating pace.
- Going forward, robust Rabi output should support recovery in rural demand, while a pick-up in contact-intensive services should help further strengthen urban demand. Investment activity may gain traction with improving business confidence, pick up in bank credit, continuing support from government CAPEX and congenial financial conditions. Capacity utilisation (CU) in the manufacturing sector recovered further to 72.4 per cent in Q3:2021-22 from 68.3 per cent in the previous quarter, surpassing the pre-pandemic level of 69.9 per cent in Q4:2019-20.

Both manufacturing and services PMIs remain in the zone of expansion; while manufacturing PMI moderated slightly in March, services and composite showed improvement

Several high-frequency indicators – railway freight, GST collections, toll collections, electricity demand, fuel consumption, and imports of capital goods posted robust year-on-year expansion during February-March.

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Edible oil price pressures are likely to remain elevated in the near term due to export restrictions by key producers and loss of supply from the Black Sea region. Feed cost pressures could continue due to global supply shortages, which could have a spillover impact on poultry, milk and dairy product prices.

Financial markets are likely to remain volatile on rising risk premia, dislocations in trade and capital flows and divergent monetary policy responses across central banks.

It may, however, be noted that given the excessive volatility in global crude oil prices since late February and the extreme uncertainty over the evolving geopolitical tensions, any projection of growth and inflation is fraught with risk and is largely contingent upon future oil and commodity price developments.

- As the horizon was brightening up, escalating geopolitical tensions have cast a shadow on our economic outlook. Although India's direct trade exposure to countries at the epicentre of the conflict is limited, the war could impede economic recovery through elevated commodity prices and global spillover channels. Further, financial market volatility induced by monetary policy normalisation in advanced economies renewed COVID-19 infections in some significant countries with augmented supply-side disruptions and protracted shortages of critical inputs, such as semiconductors and chips, pose downside risks to the outlook. Taking all these factors into consideration, real GDP growth for 2022-23 is now projected at 7.2 per cent, with Q1:2022-23 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent; and Q4 at 4.0 per cent, assuming crude oil (Indian basket) at US\$ 100 per barrel during 2022-23.
- The February 2022 meeting of the MPC had projected a moderating path for inflation during 2022-23. However, heightened geopolitical tensions since end-February have upended the earlier narrative and considerably clouded the inflation outlook for the year. A likely record Rabi harvest would help keep domestic prices of cereals and pulses in check on the food price front. Global factors such as the loss of wheat supply from the Black Sea region and the unprecedented high international wheat prices could put a floor under domestic wheat prices.
- Coming to non-food items, the spike in international crude oil prices since end-February poses a substantial upside risk to inflation through direct and indirect effects. A sharp increase in domestic pump prices could trigger broad-based second-round price pressures. A combination of high international commodity prices and elevated logistic disruptions could aggravate input costs across the agriculture, manufacturing and services sectors. Therefore, their pass-through to retail prices warrants continuous monitoring and proactive supply management. Taking into account these factors and on the assumption of a normal monsoon in 2022 and an average crude oil price (Indian basket) of US \$ 100 per barrel, inflation is now projected at 5.7 per cent in 2022-23, with Q1 at 6.3 per cent; Q2 at 5.8 per cent; Q3 at 5.4 per cent; and Q4 at 5.1 per cent.
- In this context, the continuation and deepening of supply-side measures may alleviate food price pressures and also mitigate cost-push pressures across manufacturing and services. On our part, let me assure all stakeholders that, as in the past, the Reserve Bank will use all its policy levers to preserve macroeconomic stability and enhance the resilience of our economy. The situation is dynamic and fast-changing, and our actions have to be tailored accordingly.

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Liquidity and Financial Market Conditions

Accordingly, access to SDF and MSF will be at the discretion of banks, unlike repo/reverse repo, OMO and CRR, which are available at the discretion of the Reserve Bank. Notably, the SDF is also a financial stability tool and its role in liquidity management.

The width of the LAF corridor is restored to the pre-pandemic configuration of 50 bps, symmetrically around the policy repo rate, which will be at the centre of the corridor.

- The macroeconomic outlook is undergoing tectonic shifts, and our policy response has to be pre-emptive and re-calibrated dynamically to the evolving outlook. The Reserve Bank will continue to adopt a nuanced and nimble-footed approach to liquidity management while maintaining adequate liquidity in the system. At present, liquidity management is characterised by two-way operations: variable-rate reverse repo (VRRR) auctions of varying maturities to absorb liquidity; and variable rate repo (VRR) auctions to meet transient liquidity shortages and offset mismatches. This approach will be continued.
- It may be noted that the interest rate for around 80 per cent of the total liquidity absorbed under the LAF during Q4:2021-22 has firmed up close to the policy repo rate due to the rebalancing of liquidity through VRRR auctions. Accordingly, financial market participants have been prepared for the eventual normalisation of the LAF corridor.
 - The amendment to Section 17 of the RBI Act in 2018 empowered the Reserve Bank to introduce the Standing Deposit Facility (SDF). By removing the binding collateral constraint on the central bank, the SDF strengthens the operating framework of monetary policy. Accordingly, it has now been decided to introduce the SDF as the floor of the LAF corridor. This would provide symmetry to the operating framework of monetary policy by introducing a standing absorption facility at the bottom of the LAF corridor, similar to the standing injection tool at the upper end of the corridor, namely the marginal standing facility (MSF). Thus, there will be standing facilities at both ends of the LAF corridor- one to absorb and the other to inject liquidity.
 - The SDF rate will be 25 bps below the policy rate, and it will be applicable to overnight deposits at this stage. It would, however, retain the flexibility to absorb liquidity of longer tenors as and when the need arises, with appropriate pricing. The MSF rate will continue to be 25 bps above the policy repo rate.
 - The fixed-rate reverse repo (FRRR) rate is retained at 3.35 per cent. It will remain as part of the RBI's toolkit, and its operation will be at the discretion of the RBI for purposes specified from time to time. The FRRR, along with the SDF, will impart flexibility to the RBI's liquidity management framework.
 - Both MSF and SDF will be available on all days of the week throughout the year.
 - It has also been decided to restore the opening time for financial markets regulated by the RBI to the pre-pandemic timing of 9:00 am with effect from April 18, 2022, without any change in their closing time prevailing at present.

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As a result of RBI's rebalancing operations, the daily average absorption under the fixed-rate reverse repo has moderated sharply since August 2021, when rebalancing started. However, overall system liquidity remains in ample surplus, though it has moderated over the same period.

- During the pandemic, the RBI offered liquidity facilities of the order ₹17.2 lakh crore, of which ₹11.9 lakh crore was utilised. So far, ₹5.0 lakh crore has been returned or withdrawn on the lapse of various facilities on their due dates. The extraordinary liquidity measures undertaken in the wake of the pandemic, combined with the liquidity injected through multiple other operations of the RBI, have left a liquidity overhang of the order of ₹8.5 lakh crore in the system. The RBI will engage in a gradual and calibrated withdrawal of this liquidity over a multi-year time frame in a non-disruptive manner beginning this year. The objective is to restore the size of the liquidity surplus in the system to a level consistent with the prevailing stance of monetary policy. While doing so, we would like to reiterate our commitment to ensure the availability of adequate liquidity to meet the productive requirements of the economy. RBI also remain focussed on the completion of the borrowing programme of the Government, and towards this end, the RBI will deploy various instruments as warranted



External Sector

The merchandise trade deficit has widened in recent months partly due to elevated crude oil prices and a rise in non-oil imports in line with the domestic economic recovery.

- Despite the worsening global supply shocks slowing the recovery in the world economy, India's merchandise exports grew robustly in 2021-22, overshooting the target of US\$ 400 billion. A sharp escalation in international commodity prices in conjunction with domestic demand recovery has also led to a strong rebound in imports and a widening of trade and current account deficits. The sustained and robust growth in services exports and in-bound remittances continue to keep our invisible account balance in ample surplus, which helps to offset partly the merchandise trade deficit. Despite the sharp jump in crude oil and other commodity prices, RBI expects the current account deficit to remain at sustainable levels, which can be financed with normal capital flows.
- Overall, our external sector indicators remain healthy and have improved significantly in recent years. Our foreign exchange reserves stand at US\$ 606.5 billion as of April 1, 2022, which are further bolstered by the net forward assets of the RBI. The Reserve Bank remains committed to maintaining orderly conditions in the domestic financial markets and will take appropriate steps, as needed, on an ongoing basis to contain the adverse spillovers from global developments.

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»»» Additional Measures

Recognising the importance of the housing sector and its multiplier effects, it has been decided to extend the applicability of these guidelines till March 31, 2023. This will facilitate higher credit flow for individual housing loans.

Given the transformation underway in the financial landscape due to innovations in products and services, deepening of digital penetration and emergence of various service providers, it is proposed to set up a committee to examine and review the current state of customer service in the RBI Regulated Entities, adequacy of customer service regulations and suggest measure to improve the same.

To further facilitate greater penetration of bill payments through the BBPS and to encourage the participation of a greater number of non-bank Bharat Bill Payment Operating Units in the BBPS, it is proposed to reduce the net worth requirement of such entities from ₹100 crore to ₹25 crores.

- Individual Housing Loans- Rationalisation of Risk Weights: The risk weights for individual housing loans were rationalised in October 2020 by linking them only with loan-to-value (LTV) ratios for all new housing loans sanctioned up to March 31, 2022.
- SLR Holdings In HTM Category: With a view to enabling banks to better manage their investment portfolio during 2022-23, it has been decided to enhance the present limit under Held to Maturity (HTM) category from 22 per cent to 23 per cent of NDTL till March 31, 2023. Under this enhanced limit, it has also been decided to allow banks to include eligible SLR securities acquired between April 1, 2022, and March 31, 2023. 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, 2023.
- Discussion Paper On Climate Risk And Sustainable Finance: Climate change poses certain risks that could have implications for the safety and soundness of financial institutions as well as financial stability. To facilitate better understanding and assessment of the potential impact of climate-related financial risks by Regulated Entities, a Discussion Paper on Climate Risk and Sustainable Finance will be published shortly for feedback.
- Committee For Review Of Customer Service Standards In RBI Regulated Entities: The Reserve Bank has, over the years, taken several measures to enhance consumer protection. These measures include laying down regulatory frameworks on customer service, internal grievance redress and the Ombudsman mechanisms.
- Interoperable Card-Less Cash Withdrawal At ATMs: At present, the card-less cash withdrawal facility through ATMs is limited only to a few banks. It is now proposed to make card-less cash withdrawal facility available across all banks and ATM networks using the UPI. In addition to enhancing the ease of transactions, the absence of the need for a physical card for such transactions would help prevent frauds such as card skimming, card cloning, etc.
- Bharat Bill Payment System: Rationalisation of Net-worth Requirement for Operating Units: Bharat Bill Payment System (BBPS), an interoperable platform for bill payments, has increased the volume of bill payments and billers over the years.
- Cyber Resilience and Payment Security Controls of Payment System Operators (PSOs): Payment systems play a catalytic role in facilitating financial inclusion and promoting financial stability. To ensure that our payment systems remain resilient to conventional and emerging risks, specifically those relating to cyber security, it is proposed to issue guidelines on Cyber Resilience and Payment Security Controls for Payment System Operators.