

RBI hikes repo rate by 35 bps to 6.25%

- ❖ Policy repo rate under the liquidity adjustment facility (LAF) increased by 35 bps to 6.25 per cent
- ❖ Standing deposit facility (SDF) rate stands adjusted to 6.00 per cent
- ❖ Marginal Standing Facility (MSF) rate and the Bank Rate stand adjusted to 6.50 per cent

Key Rates	September 2022	December 2022	Status
Repo Rate	5.90%	6.25%	Increased by 35 bps
Standing Deposit Facility	5.65%	6.00%	
Marginal Standing Facility	6.15%	6.50%	
Bank Rate	6.15%	6.50%	

RBI's Guidance on Growth & Inflation

	Gross Domestic Product (in %)					Consumer Price Index (in %)				
	FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
December 2022 Monetary Policy	6.8	4.4	4.2	7.1	5.9	6.7	6.6	5.9	5.0	5.4
September 2022 Monetary Policy	7.0	4.6	4.6	7.2	-	6.7	6.5	5.8	5.0	-
Change in outlook	Lowered					Unchanged for FY23 Slightly Raised for Q3 & Q4 FY23				

RBI lowers GDP growth projection for FY23 from 7.0% in the last monetary policy announcement to 6.8%

According to RBI, economic activity continues to gain momentum with a boost to urban consumption driven by recovery in discretionary spending. High frequency indicators are also posting robust growth. Rural demand is recovering on the back of good agricultural prospects, while investment activity is also picking up. Going forward, investment activity will get support from government capex. The outlook remains bright supported by good progress of rabi sowing, improving consumer sentiments, a pick-up in services sectors, optimism in the manufacturing and infrastructure sectors, and robust credit expansion. Nonetheless, the Central Bank has lowered its near-term GDP growth projections owing to a protracted global slowdown and tightening monetary conditions exerting downward pressure on India's net exports.

RBI retains CPI forecast for FY 2022-23 at 6.7% from the last monetary policy announcement

Although, the CPI is showing signs of moderation, it is still above RBI's upper tolerance band and core inflation remains sticky. While headline inflation may ease through the rest of the financial year, it is expected to remain above RBI's medium-term target, being exposed to heightened geopolitical uncertainties, financial market volatility, and rising incidence of adverse weather events. A correction in industrial input prices and easing of supply bottlenecks, if sustained, are likely to ease inflationary pressures, however, the pending pass-through of input costs is expected to keep core inflation elevated, at least in the near-term. The Bank expects to bring headline inflation back within its tolerance band of 4 +/- 2 percent, first bringing it to below 6 percent and later, closer to 4 percent.

Source: RBI's Monetary Policy Statement, December 7, 2022

Snapshot – Upsides/Downsides

Upsides

- ✓ Good prospects of rabi harvest
- ✓ Rebound in contact-intensive sectors
- ✓ Improving consumer confidence
- ✓ Robust non-food credit growth
- ✓ Correction in industrial input prices
- ✓ Easing of supply chain pressures

Downsides

- ✓ Unabating geopolitical tensions
- ✓ Protracted global slowdown
- ✓ Elevated prices for cereals, milk, spices in near-term
- ✓ Adverse climatic events
- ✓ Tightening global financial conditions
- ✓ Slowing external demand

Source: RBI Governor's Statement, December 7, 2022

Developmental & Regulatory Announcements

Payment and Settlement Systems

Enhancements to Unified Payments Interface (UPI) – Processing Mandates with Single-Block-and-Multiple-Debits

Unified Payments Interface (UPI) has emerged as a popular retail payments system for Person to Person (P2P) and Person to Merchant (P2M) transactions. UPI has features which enable processing of mandates for recurring transactions and single block-and-single-debit functionality. The capabilities in UPI can be enhanced to enable a customer to create a payment mandate against a merchant by blocking funds in his/her bank account for specific purposes which can be debited, whenever needed. This would be helpful for hotel bookings, purchase of securities in the secondary capital market as also purchase of government securities using the RBI's Retail Direct scheme, e-commerce transactions etc. It has, therefore, been decided to introduce a single-block-and-multiple debits functionality in UPI, which will significantly enhance the ease of making payments in e-commerce space and towards investments in securities.

Expanding the Scope of Bharat Bill Payment System (BBPS) to include all Payments and Collections

Bharat Bill Payment System (BBPS), an interoperable platform operated by NPCI Bharat BillPay Ltd. (NBBL), has been facilitating the bill payment needs of consumers and billers alike. Since its launch in 2017, the Reserve Bank has, from time to time, announced various improvements to this platform like including all categories of billers who raise recurring bills, facilitating in-bound cross-border bill payments, reducing the eligibility criteria for Operating Units (BBPOUs), etc. The volume and value of transactions handled on the platform has been increasing steadily. However, BBPS currently does not enable non-recurring payments or collection requirements of individuals even if they are recurring in nature. Consequently, some categories of payments / collections remain outside the ambit of the BBPS viz., professional service fee payments, education fees, tax payments, rent collections, etc. It has, therefore, been decided to expand the scope of BBPS to include all categories of payments and collections, both recurring and non-recurring in nature. This will make the platform accessible to a wider set of individuals and businesses who can benefit from the transparent and uniform payments experience, faster access to fund.

Financial Markets

Hedging of Gold Price Risk 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 efficiently, it has been decided to permit resident entities to hedge their gold price risk on recognized exchanges in the International Financial Services Centre (IFSC). The related instructions will be issued separately.

Regulation and Supervision

SLR Holdings in Held to Maturity (HTM) category

The Reserve Bank had increased the limits under Held to Maturity (HTM) category from 19.5 per cent to 23 per cent of net demand and time liabilities (NDTL) in respect of statutory liquidity ratio (SLR) eligible securities acquired on or after September 1, 2020, up to March 31, 2023. This dispensation of enhancement in HTM limit was made available up to March 31, 2023. With a view to enable banks to better manage their investment portfolios, it has been decided to extend the dispensation of enhanced HTM limit of 23 per cent up to March 31, 2024, and allow banks 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.

Source: RBI's Statement on Developmental and Regulatory Policies, December 7, 2022

FICCI's Comments

The Reserve Bank's policy action hiking the policy repo rate by 35 bps was widely anticipated as the war against inflation is still far from over. Retail inflation has remained above the Central Bank's tolerance threshold of 6 percent through the year 2022. Core inflation remains sticky, and uncertainty continues to surround RBI's near-term inflation outlook given the complex geo-political developments in Europe, recurrence of adverse climate related events and the still high commodity prices globally. While the CPI inflation projection has been maintained at 6.7 percent for 2022-23 and some early signs of inflation cooling down on a sequential basis are coming to fore, we need to see this trend emerge on a durable basis for RBI to indicate a change in stance.

Furthermore, while the Indian economy remains resilient, the RBI has revised downward its GDP growth forecast for 2022-23 to 6.8 percent from 7.0 percent in the last monetary policy announcement. Even at this slightly lower rate of growth, India continues to be amongst the fastest growing economies globally and we are encouraged by the Governor's statement that liquidity will be made available for productive activities as required so that the growth impulses get nurtured.