Fact Sheet: Monetary Policy September 2022

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RBI further hikes policy repo rate to 5.90%

Key Rates	August 2022	September 2022	Status
Repo Rate	5.40%	5.90%	Increase by 50 bps
SDF	5.15%	5.65%	
MSF	5.65%	6.15%	
Bank Rate	5.65%	6.15%	

- Policy repo rate under the liquidity adjustment facility (LAF) increased by 50 basis points to 5.90 per cent.
- Standing deposit facility (SDF) rate consequently increased by 50 basis points to 5.65 percent.
- Marginal Standing Facility (MSF) rate and the Bank Rate each increased by 50 basis points to 6.15 percent each.
- The RBI continued to withdraw accommodative stance in order to ensure that inflation remains within the medium-term target of 2.0 to 6.0 percent going forward, while supporting growth.

The MPC believes that additional calibrated monetary policy action is necessary to prevent second-round effects, limit the buildup of price pressures, and keep inflation expectations anchored.

Reserve Bank of India's Guidance on Growth & Inflation

	Gross Domestic Product (in %)					Consumer Price Index (in %)				
	FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
September 2022 Monetary Policy	7.0	6.3	4.6	4.6	7.2	6.7	7.1	6.5	5.8	5.0
August 2022 Monetary Policy	7.2	6.2	4.1	4.0	-	6.7	7.1	6.4	5.8	5.0
Change in outlook	Quarterly projections raised Yearly projection lowered					Largely Unchanged Slightly raised for Q3 2022-23				

RBI lowers GDP growth projection to 7.0% for 2022-23 from the last policy announcement

Regarding growth, the aggregate supply outlook is bolstered by a pickup in services and agriculture and allied activities. The government's emphasis on capital expenditure, improvement in manufacturing capacity utilisation, and uptick in non-food credit is expected to support the expansion in industrial activity. The outlook for demand is also favourable, with urban demand expected to receive a push during the upcoming festive season. According to RBI surveys, consumer sentiment is improving with regard to future demand and sales conditions. However, the prognosis for India's GDP is also affected by geopolitical headwinds, tightening financial conditions globally, and a weakening of external demand. Factoring in all these developments, the Central Bank has revised down India's GDP growth projection for FY23 to 7.0 percent from an estimate of 7.2 percent in the August 2022 policy announcement.

RBI keeps CPI projection for 2022-23 almost unchanged from the last policy announcement

According to the Central Bank, the inflation trajectory is largely influenced by the course of the volatile geopolitical conditions. Although commodity prices are somewhat easing, there is a recessionary buildup in advanced economies. In the country, a recovery in kharif sowing, good reservoir levels, and reduction in rainfall deficit bode well for the kharif output. However, elevated imported inflation, possibility of crop damage, appreciation of the US Dollar, and volatile crude prices remain as upside risks to the inflation outlook. Although, the RBI's recent surveys indicate that pressure on input costs and output prices are beginning to ease for businesses in the manufacturing, services, and infrastructure sectors, however, the pass-through to consumer prices is yet to happen. Thus, the Central Bank has revised its inflation projection to 6.5 percent for the third quarter of FY23, while keeping the inflation projection for FY23 and for the remaining quarters unchanged from the August 2022 policy announcement.

Source: RBI's Monetary Policy Statement, September 30, 2022

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Developmental & Regulatory Announcements

Regulation and Supervision

Discussion Paper on Expected Loss Based Approach for Loan Loss Provisioning by Banks
The inadequacy of the incurred loss approach for provisioning by banks and its procyclicality, which amplified the downturn following the financial crisis of 2007-09, has been extensively documented. One of the major elements of the global response to these findings have been a shift to expected credit loss (ECL) regime for provisioning. As a further step towards converging with globally accepted prudential norms, it is proposed to adopt expected loss approach for loss allowances required to be maintained by banks in respect of their exposures. A discussion paper on the various aspects of the transition to be issued shortly.

Discussion Paper on Securitisation of Stressed Assets Framework (SSAF)
In September 2021, the Reserve Bank had issued the revised framework for securitisation of standard assets. As regards securitisation of non-performing assets, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 currently provides a framework for such securitisations to be undertaken by Asset Reconstruction Companies (ARCs) licensed under the Act. However, based on market feedback, stakeholder consultations and the recommendations of the Task Force on Development of Secondary Market for Corporate Loans (RBI, 2019), it has been decided to introduce a framework for securitisation of stressed assets in addition to the ARC route, similar to the framework for securitisation of standard assets. A Discussion Paper detailing relevant contours of the proposed framework to be issued shortly inviting comments on certain specific aspects.

Internet Banking Facility for Customers of Regional Rural Banks (RRBs)
The RRBs are currently allowed to provide Internet Banking facility to their customers with prior approval of the Reserve Bank, subject to fulfilment of certain financial and non-financial criteria. Keeping in view the need to promote the spread of digital banking in rural areas, the criteria for RRBs to be eligible to provide internet banking being rationalised and guidelines being issued separately.

Payment and Settlement Systems

Regulating Offline Payment Aggregators
Payment Aggregators (PAs) play an important role in the payments ecosystem and hence were brought under regulations in March 2020 and designated as Payment System Operators (PSOs). The current regulations are, however, applicable to PAs processing online or e-commerce transactions. These regulations do not cover offline PAs who handle proximity/face-to-face transactions and play a significant role in the spread of digital payments. Keeping in view the similar nature of activities undertaken by online and offline PAs, it is proposed to apply the current regulations to offline PAs as well. This measure is expected to bring in synergy in regulation covering activities and operations of PAs apart from convergence on standards of data collection and storage. Detailed instructions to be issued separately.

Source: Statement on Development and Regulatory Policies, September 30, 2022

Comments

The 50-bps point hike in the repo rate by the Reserve Bank of India was widely anticipated. The Governor has delivered a balanced guidance based on the incoming data clearly indicating the downside risks and the possible upsides that remain on fore. Inflation of course will take some time to settle, and the indicative trajectory highlighted by the Central Bank sees inflation to be about 5.0 percent in Q1 of 2023-24. Businesses will have to be prepared to tackle a continued stress in the commodity prices over the near to medium term.

The Governor correctly alluded to the synchronous tightening of monetary policy as the third shock to the global economy after Covid-19 and conflict in Europe. What we are witnessing is unprecedented level of hikes and speed of monetary tightening taking place globally - which is bound to have implications on growth. India's GDP growth estimate for 2022-23 has been revised down to 7.0 percent. While the headwinds from the external sector continue unabated, we should be able to hold our ground given our comfortable position on forex and debt levels. Also, the beginning of the festive season in India will lend some impetus to demand but maintaining the momentum as we enter the next year could be a challenge and this factor will have to be built into the budget preparation exercise for next year.