

RBI MONETARY POLICY

SEPTEMBER 2022

Key Policy Announcements:

- **Stance:** The MPC remains focused on withdrawal of accommodation. The RBI will move towards normal monetary policy in a calibrated manner.
- **Repo Rate:** Majority of members voted for 50bps hike to 5.9% from 5.4%, this makes the cumulative hike of 190bps.
- **GDP Growth:** The real GDP growth for FY23 has cut from 7.2% to 7%, still highest among major economies.
- **Inflation:** CPI inflation has remained in the range around near 7%. The RBI inflation forecast remains unchanged at 6.7% for FY23.
- **Commentary:** The RBI intervened in the forex market to curb volatility. The RBI maintained that depreciation of INR is primarily due to strength of the US dollar, rather than any weakness in India's macro fundamentals.

View:

- Given the uncertainty at global level, we find the RBI's objective of balancing growth & Inflationary concerns ensuring financial stability, as the right approach. RBI's market intervention is considered judicious in nature to curb inflation & remain focused on maintaining the stability of INR.
- The RBI maintaining CPI Inflation forecast at 6.7% is the most comforting factor which shall lead to negative policy rate to narrow down further & run-rate of growth at 7% is still superior compared to global growth.
- Overall, we expect the RBI to further increase the rate to 6.25-6.75% (Feb'20 at 5.15%) in FY23, which shall leave the negative real policy rate at 0-0.25%. In near-term, this shall impact businesses which have higher elasticity to leverage leading to fall in profitability.
- Overall macros of India are superior where revival as per RBI is broad-based, forecast of normal monsoon has brightened rural prospects, strong GST collection, improving manufacturing PMI & robust credit growth showcasing, only key worry remains the surging current account deficit.
- We maintain a positive outlook on the BFSI sector where we expect sustenance of the credit growth in double-digit with improving profitability on account of benign asset quality.

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