

RBI Monetary Policy Statement

September 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 30th September 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 50 basis points to 5.90 per cent with immediate effect.
- Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.15 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. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Key Takeaways

Global Economy

- Global economic activity is weakening under the impact of the protracted conflict in Ukraine and aggressive monetary policy actions and stances worldwide. Global financial markets are experiencing volatility surges, with sporadic sell-offs in equity and bond markets, and the US dollar is strengthening to a 20-year high. As external demand deteriorates, their macroeconomic outlook is becoming increasingly adverse.

Domestic Economy

- Real gross domestic product (GDP) grew year-on-year (y-o-y) by 13.5 per cent in Q1:2022-23. On the supply side, gross value added (GVA) rose by 12.7 per cent in Q1:2022-23, with all constituents recording y-o-y growth and, most notably, services. Aggregate supply conditions are improving. The index of industrial production growth, however, slowed to 2.4 per cent (y-o-y) in July.
- On the demand side, urban consumption is improving owing to discretionary spending ahead of the festival season, and rural demand is also gradually improving. Investment demand is gaining traction, as reflected in rising imports and domestic production of capital goods, steel consumption and cement production.
- CPI inflation rose to 7.0 per cent (y-o-y) in August 2022 from 6.7 per cent in July as food inflation increased, driven by cereals, vegetables, pulses, spices and milk prices. Money supply (M3) expanded y-o-y by 8.9 per cent, with aggregate deposits of commercial banks growing by 9.5 per cent and bank credit by 16.2 per cent as on September 9, 2022. India's foreign exchange reserves were placed at US\$ 537.5 billion on September 23, 2022.

Consumer Outlook Remains Stable

- According to the RBI's surveys, the consumer outlook remains stable, and firms in the manufacturing, services and infrastructure sectors are optimistic about demand conditions and sales prospects. On the other hand, headwinds from geopolitical tensions, tightening global financial conditions and slowing external demand pose downside risks to net exports and India's GDP outlook.

Growth

- On growth, the improving outlook for agriculture and allied activities and rebound in services are boosting the prospects for aggregate supply. The outlook for aggregate demand is positive, with rural demand catching up and urban demand expected to strengthen further with the typical upturn in the second half of the year.

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Discussion Paper On Expected Loss Based Approach For Loan Loss Provisioning By Banks

- The critical elements of the global response to these findings have been a shift to the expected credit loss (ECL) regime for provisioning.
- As a further step towards converging with globally accepted prudential norms, it is proposed to adopt the expected loss approach for loss allowances required to be maintained by banks in respect of their exposures.
- As a first step, a discussion paper on the various aspects of the transition will be issued shortly.

Discussion Paper on Securitization of Stressed Assets Framework (SSAF)

- Based on the stakeholder's discussion, it has been decided to introduce a framework for the securitization of stressed assets in addition to the ARC route, in line with the framework for the securitization of standard assets. Accordingly, a Discussion Paper (DP) detailing relevant contours of the proposed framework will be issued shortly, which will also invite comments on specific aspects.

Internet Banking Facility for Customers of RRBs

- Considering the need to promote digital banking in rural areas, the criteria for RRBs to be eligible to provide internet banking are being rationalized, and guidelines are being issued separately.

Regulating Offline Payment Aggregators

- Keeping in line of the PAs processing online or e-commerce transactions, 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 will be issued separately.