

April 6, 2022

Rate pause for this meeting, future course data dependent...

Repo rate..... Unchanged at 6.5%

CRR.....Unchanged at 4.5%

The RBI MPC has decided to pause for this meeting and maintained the repo rate at 6.5%. The MPC continued to remain focused on “withdrawal of accommodation” to ensure that inflation progressively aligns with the target, while supporting growth. RBI emphasised that the decision to pause on the repo rate is for this meeting only.

- The effective rate hike since April last year has been 290 bps. These increases have been fully transmitted to the overnight weighted average call money rate (WACR), the operating target of monetary policy, which has gone up from daily average of 3.32% in March 2022 to 6.52% in March 2023. As stated by the RBI, it is now necessary to evaluate the cumulative impact of these rate hikes. Accordingly, a pause currently with options open to act as and when necessary bodes well for markets
- When the rate cut cycle started in February 2019 to provide support to growth, CPI inflation was around 2% and the policy repo rate was 6.50%. Now, the policy rate is 6.50% but inflation is 6.4% (February 2023). Overall, inflation is above the target and given its current level, the present policy rate can still be regarded as accommodative

CPI inflation is projected lower at 5.2% vs. 5.3% earlier for 2023-24, with Q1 at 5.1%, Q2 at 5.4%, Q3 at 5.4% and Q4 at 5.2% vs. 5.6% earlier led by the current Q4 base effect.

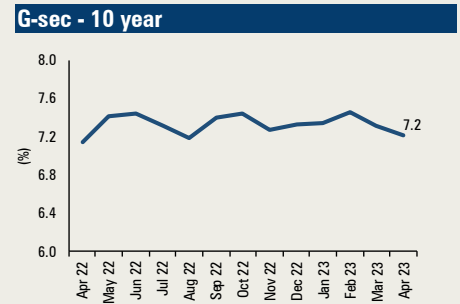
Real GDP growth projection for 2023-24 has been raised to 6.5% from 6.4% with Q1 at 7.8%, Q2 at 6.2%, Q3 at 6.1% and Q4 at 5.9%. The government’s focus on capital expenditure, capacity utilisation above long-period average and moderating commodity prices should bolster manufacturing and investment activity.

View: Interest rates peaked or global uncertainty jitters to stay?

The status quo on benchmark rates by RBI came as pleasant surprise as majority of the market participants were expecting one last rate hike of 25 bps. Both debt and equity markets reacted positively on the policy outcome as both markets were positioned cautiously before the policy event. Benchmark 10-year G-Sec yield dropped by more than 7-8 bps to below 7.2% and equity markets also showing uptick post policy announcement.

The RBI Governor indicated it may not be the end of the rate hike cycle and the next policy move depends on incoming data. However, with inflation now projected at 5.2% for FY24 and Fed unlikely to hike rates further given weak economic data, the rate hike cycle in India has peaked in all likelihood.

The current spread of 70 bps of 10-year G-Sec yield (7.2%) over repo rate (6.5%) is near historically higher end of the range during peak repo rate period. This spreads shifts lower as the market starts factoring in rate cuts. We believe the yield across the G-Sec curve likely peaked at current levels.



RBI Action

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Regulatory -Operation of pre-sanctioned credit lines at banks through UPI

RBI proposed to expand the scope of UPI by enabling transfer to/from pre-sanctioned credit lines at banks in addition to deposit accounts. The UPI network will facilitate payments financed by credit from banks. This can reduce the cost of such offerings and help in development of unique products for Indian markets. Recently, RuPay credit cards were also permitted to be linked to UPI.

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