

2022 MAY

RBI's Monetary Policy

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Particulars	Current (May'22)	Previous (Apr'22)	Changes
Rates and Ratios			
Repo Rate	4.40%	4.00%	↑
Reverse Repo Rate	3.35%	3.35%	↔
MSF Rate	4.65%	4.25%	↑
CRR	4.50%	4.00%	↑
SLR	18.00%	18.00%	↔

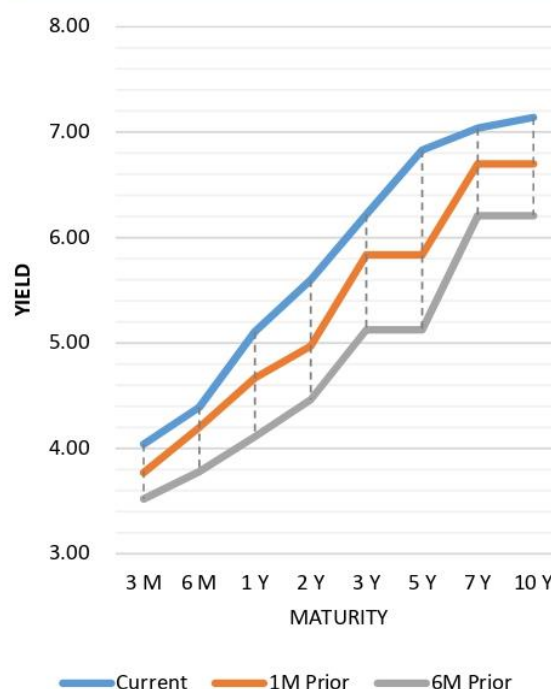
Particulars	CPI (%)		Real GDP (%)	
	May'22	Apr'22	May'22	Apr'22
RBI Projections				
Q1 FY23	16.2	16.2	6.3	6.3
Q2 FY23	6.2	6.2	5.8	5.8
Q3 FY23	4.1	4.1	5.4	5.4
Q4 FY23	4.0	4.0	5.1	5.1
FY23	7.2	7.2	5.7	5.7

Amidst a high inflation worry, the Monetary Policy Committee (MPC) of RBI unanimously voted to hike repo rates by 40 bps in an off-cycle policy meet. The constant higher inflation levels have led RBI to reconsider its accommodative stance as the central bank has decided to remain accommodative while focusing on gradual withdrawal of accommodation to ensure that inflation remains within the target going forward.

Policy Review & Outlook

- Even as the driving force of the domestic economy grows stronger, they still face challenges in the form of rising inflation levels amidst a compounded geopolitical tension.
- According to RBI, private consumption is accelerating again as recovery progresses while expectations of normal monsoon in the upcoming months would prove favourable for the agriculture occupation within the country.
- Increased geopolitical pressure, rising commodity prices, COVID19-related restrictions in some major economies limiting external demand tightening global fiscal conditions are likely headwinds for the domestic economy in near term.
- The unexpected rise in repo rates will gradually shift the focus of central banks to aggressive inflation management in the near future, lagging potential GDP growth.
- Raising interest rates will affect short-term production by Indian companies. However, in the long run, the Indian economy will continue to rise, supported by strong macros, as inflation levels will return to RBI manageable levels.

India's Yield Curve



Our View

Considering the abrupt hike in interest rates to manage exceeding inflation levels, we expect funds with low durations to better shelter the investors from an interest rate risk in the near future. However, investors should primarily select funds based on their investment horizon, risk appetite and investment objective.

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