Fact Sheet: Monetary Policy April 2022

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RBI maintains accommodative stance but alludes to withdrawal of accommodation to target inflation

Key Rates	April 2022	Status
Repo Rate	4.0%	UNCHANGED
Reverse Repo Rate	3.35%	UNCHANGED SDF introduced
MSF	4.25%	UNCHANGED
Bank Rate	4.25%	UNCHANGED

- Policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent
- Marginal Standing Facility (MSF) rate and the Bank Rate unchanged at 4.25 per cent
- Standing deposit facility (SDF) rate at 3.75 per cent to now be the floor of the LAF corridor
- Monetary Policy Committee continues with an accommodative stance while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth

Summary of Current Interest Rates of a Few Central Banks

Country/region	Current Rate	Direction	Previous Rate	Change
United States	0.500 %	↑	0.250 %	03-16-2022
Australia	0.100 %	↓	0.250 %	11-03-2020
South Korea	1.250 %	↑	1.000 %	01-14-2022
Brazil	11.750 %	↑	10.750 %	03-16-2022
Great Britain	0.750 %	↑	0.500 %	03-17-2022
Canada	0.500 %	↑	0.250 %	03-02-2022
China	3.700 %	↓	3.800 %	01-20-2022
Europe	0.000 %	↓	0.050 %	03-10-2016
India	4.000 %	↓	4.400 %	05-22-2020
Japan	-0.100 %	↓	0.000 %	02-01-2016
New Zealand	1.000 %	↑	0.750 %	02-22-2022
Norway	0.750 %	↑	0.500 %	03-24-2022
Russia	20.000 %	↑	9.500 %	02-28-2022
Saudi Arabia	1.250 %	↑	1.000 %	03-16-2022
South Africa	4.250 %	↑	4.000 %	03-24-2022

Source: https://www.global-rates.com/en/interest-rates/central-banks/central-banks.aspx

Reserve Bank of India's Guidance on Growth & Inflation

	Gross Domestic Product (in %)					Consumer Price Index (in %)				
	FY23	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	FY23	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
April 2022 Monetary Policy	7.2	16.2	6.2	4.1	4.0	5.7	6.3	5.8	5.4	5.1
February 2022 Monetary Policy	7.8	17.2	7.0	4.3	4.5	4.5	4.9	5.0	4.0	4.2
Change in outlook	Lowered					Raised				

Source: RBI's Monetary Policy Statement, April 8, 2022

RBI lowers a GDP growth projection to 7.2% for 2022-23

Risks have tilted to the downside since the announcement of last monetary policy. The geopolitical stress and the consequent increase in international crude oil/commodity prices, future course of the pandemic, tightening of global financial conditions, continuing supply-side disruptions and muted external demand outlook are expected to undermine growth prospects going ahead. Nonetheless on the positive side, good prospects of rabi output, receding third wave and expanding vaccination coverage, pick-up in contact-intensive services should augur well for the economy. Moreover, the emphasis on capital expenditure should give a thrust to private investment activity, amid an uptick being noted in the capacity utilization levels. Factoring latest development on the external front, the Central Bank has revised down India's GDP growth projection to 7.2 percent from an estimate of 7.8 percent in the February 2022 policy announcement.

RBI revises CPI projection for 2022-23 to 5.7% from 4.5% in the last monetary policy announcement

According to the Central Bank, the inflation trajectory will be contingent on the evolving geopolitical situation and the ensuing supply side disruptions. Global price pressures in edible oils, animal and poultry feed, crude oil, industrial inputs remain elevated. Thus, input cost push pressures are likely to persist for longer than expected earlier. The pass-through to domestic retail prices has been limited so far but will have to be monitored more carefully. According to the Reserve Bank of India's Industrial Outlook Survey, the manufacturing sector firms do expect higher input and output price pressures going forward. Thus, the Central Bank has revised its inflation projection to 5.7 percent for the financial year 2022-23, from 4.5 percent estimate shared in the February 2022 policy announcement.

Developmental & Regulatory Announcements

Liquidity Measures

Introduction of Standing Deposit Facility

The RBI has instituted the SDF with an interest rate of 3.75 per cent with immediate effect. The SDF will replace the fixed rate reverse repo (FRRR) as the floor of the LAF corridor. Both the standing facilities viz., the MSF and the SDF will be available on all days of the week, throughout the year. The fixed rate reverse repo (FRRR) rate is retained at 3.35 per cent. It will remain as part of the RBI's toolkit and its operation will be at the discretion of the RBI for purposes specified from time to time. The FRRR along with the SDF will impart flexibility to the RBI's liquidity management framework.

Restoration of the Symmetric LAF Corridor

During the pandemic, the width of the LAF corridor was widened to 90 basis points (bps) by asymmetric adjustments in the reverse repo rate vis-à-vis the policy repo rate. With a view to fully restore the pre-pandemic liquidity management framework of February 2020 and in view of the gradual return to normalcy in financial markets, it has now been decided to restore the width of the LAF corridor to its pre-pandemic level. With the introduction of SDF at 3.75 per cent, the policy repo rate being at 4.00 per cent and the MSF rate at 4.25 per cent, the width of the LAF corridor is restored to its pre-pandemic configuration of 50 bps. The LAF corridor will be symmetric around the policy repo rate with the MSF rate as the ceiling and the SDF rate as the floor with immediate effect.

Regulation and Supervision

Individual Housing Loans – Rationalization of Risk Weights

The Reserve Bank vide circular dated October 12, 2020, had rationalized the risk weights for individual housing loans by linking them only with loan to value (LTV) ratios for all new housing loans sanctioned up to March 31, 2022. Recognizing the importance of the housing sector, its multiplier effects and its role in supporting the overall credit growth, it has been decided that the risk weights as prescribed in the circular ibid shall continue for all new housing loans sanctioned up to March 31, 2023.

SLR Holdings in HTM category

Reserve Bank of India had increased the limits under Held to Maturity (HTM) category from 19.5 per cent to 22 per cent of net demand and time liabilities (NDTL) in respect of statutory liquidity ratio (SLR) eligible securities acquired on or after September 1, 2020, up to March 31, 2022. This dispensation of enhancement in HTM limit was made available up to March 31, 2023. With a view to enable banks to better manage their investment portfolio in FY 2022-23, it has now been decided to enhance the limit for inclusion of SLR eligible securities in the HTM category to 23 per cent of NDTL and allow the banks to include securities acquired between April 1, 2022 and March 31, 2023 under the enhanced limit of 23 per cent. The HTM limits would be restored from 23 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2023.

Source: RBI's Monetary Policy Statement, April 8, 2022

Discussion Paper on Climate Risk and Sustainable Finance
Climate change may result in physical and transition risks that could have implications for the safety and soundness of individual Regulated Entities (REs) as well as financial stability. Thus, there is a need for REs to develop and implement a sound process for understanding and assessing the potential impact of climate-related financial risks in their business strategy and operations. A Discussion Paper on Climate Risk and Sustainable Finance covering the above aspects will be placed shortly on the RBI's website for comments of stakeholders.

Committee for Review of Customer Service Standards in RBI Regulated Entities
The financial landscape is undergoing a revolutionary transformation consequent to the rising customer base of the banks, advent of digital products, technology platforms and service providers as also the rising volumes of digital transactions emerging from innovations in payment systems. Accordingly, it is proposed to set up a committee to examine and review the state of customer service in the REs and adequacy of customer service regulations and suggest measure to improve the same.

Payment and Settlement Systems

Interoperable Card-less Cash Withdrawal (ICCW) at ATMs
Card-less cash withdrawal through ATMs is a permitted mode of transaction offered by a few banks in the country on an on-us basis (for their customers at their own ATMs). The absence of need for a card to initiate cash withdrawal transactions would help in containing frauds like skimming, card cloning, device tampering, etc. To encourage card-less cash withdrawal facility across all banks and all ATM networks / operators, it is proposed to enable customer authorisation through the use of Unified Payments Interface (UPI) while settlement of such transactions would happen through the ATM networks. Separate instructions would be issued to NPCI, ATM networks and banks shortly.

Bharat Bill Payment System – Rationalisation of Net-worth Requirement for Operating Units
Bharat Bill Payment System (BBPS) is an interoperable platform for bill payments and the scope and coverage of BBPS extends to all categories of billers who raise recurring bills. It has been observed that there has not been a corresponding growth in the number of non-bank Bharat Bill Payment Operating Units (BBPOUs). The current requirement of net worth for a non-bank BBPOU to obtain authorisation is ₹100 crore and it is viewed as a constraint to greater participation. It is, therefore, proposed to align the net worth requirement of non-bank BBPOUs with that of other non–bank participants who handle customer funds (like Payment Aggregators) and have a similar risk profile. Accordingly, the net worth requirement for non-bank BBPOUs is being reduced to ₹25 crore.

Cyber Resilience and Payment Security Controls of Payment System Operators (PSOs)
With greater adoption of digital payment modes, it is important to ensure that payment system infrastructures are not only efficient and effective but also resilient to conventional and emerging risks, specifically those relating to cyber security. RBI has prescribed the necessary security controls for digital payment products and services offered by banks and credit card issuing NBFCs. It is proposed to issue similar directions for Payment System Operators (PSOs), covering robust governance mechanism for identification, assessment, monitoring and management of cybersecurity risks including information security risks and vulnerabilities, and specify baseline security measures for ensuring safe and secure digital payment transactions. The directions will be issued shortly.

FICCI's Comments

The continuation of Reserve Bank of India's accommodative stance is welcome. The statement does allude to a withdrawal of accommodation clearly signaling towards normalization of liquidity management to ensure inflation remains within target. There has been a considerable change in the economic scenario since the last policy announcement and we were expecting that the Central Bank will take due cognizance of the current situation. The significant escalation in geo-political stress since end February 2022 is undermining global recovery and some impact on India will be inevitable.

Reserve Bank of India has revised down India's GDP growth estimate for 2022-23 to 7.2 percent. This is a significant downward revision from its earlier projection of 7.8 percent and also lower than 7.4 percent GDP growth estimate put forth by FICCI's latest Economic Outlook Survey. Inflationary pressures remain on fore, and we saw this getting reflected in the upward revision in inflation forecast for the current year. However, inflation in India is supply side driven, and we feel support from government in terms of fiscal measures such as reduction in excise duty and VAT on petrol/diesel by Centre and States can help mitigate immediate concern on inflation to some extent.

Moreover, we are glad to note that the Reserve Bank of India has extended the applicability of rationalized risk weights for all new housing loans to March 31, 2023 from March 31, 2022. The housing and real estate sector can be a force multiplier for growth and for kickstarting investments as these sectors have significant forward and backward linkages.

We also look forward to the RBI discussion paper on Climate Risk and Sustainable Finance and will provide our perspective on the same once it is put out for public comments. Finally, with digital payments on the rise, there was a felt need to focus even more on the cyber security aspects related to digital payments. In this context, RBI's announcement that it would issue detailed guidelines on Cyber Resilience & Payment Security controls for Payment System Operators is timely.