RBI's August Monetary Policy - Update

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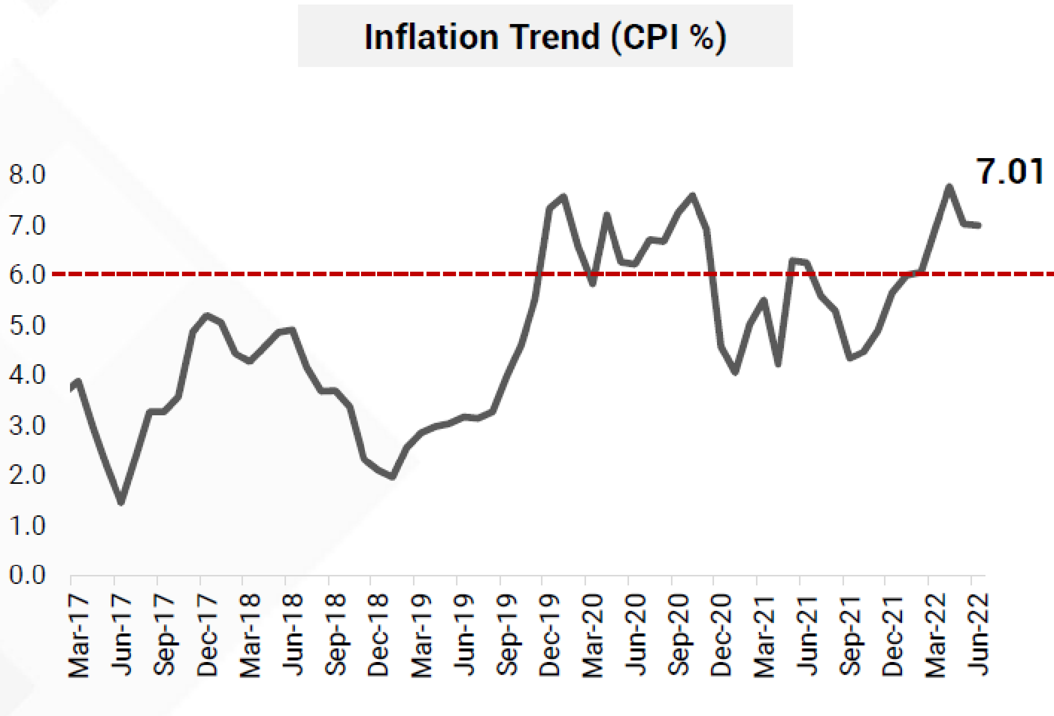
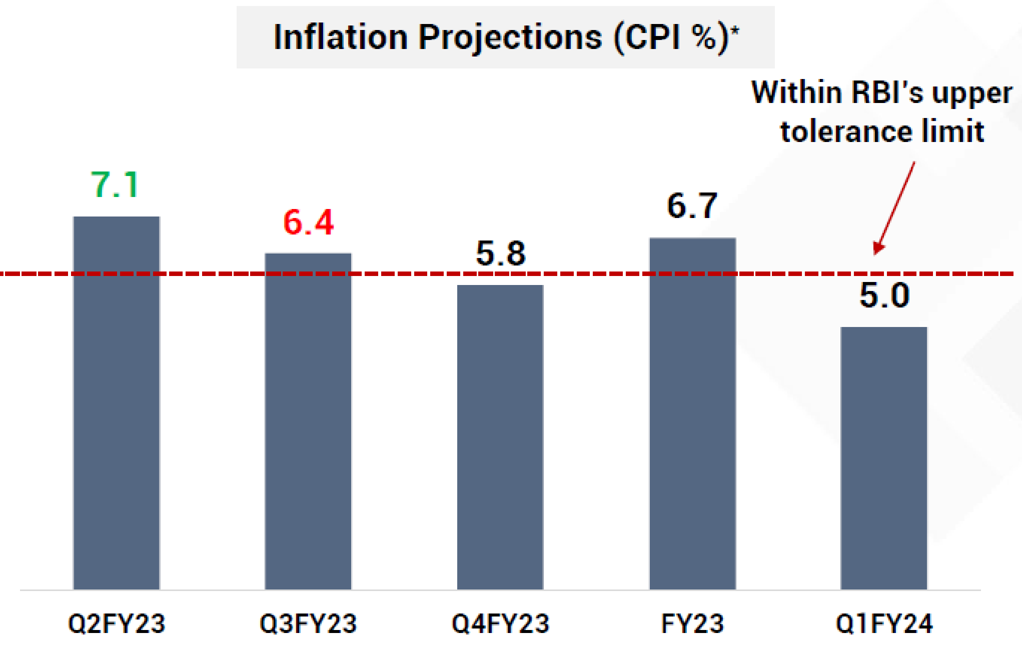
Highlights of RBI’s Monetary Policy | August 2022

- RBI hiked repo rate by 50 bps to 5.40%
- Resilient economic activity has provided the space for RBI to act on inflation
- CPI forecast unchanged for FY23 at 6.7% (above RBI’s target band of 4.0%±2.0%)
- GDP growth for FY23 retained at 7.2%
- RBI to remain vigilant on the liquidity front and conduct two-way fine tuning operations
- MPC took a view that calibrated monetary policy action is needed to contain inflation pressure

Inflation – A concern





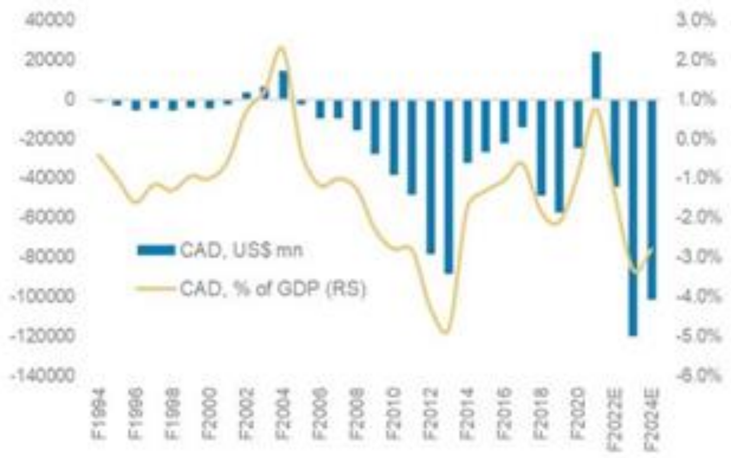
Green denotes revision downwards, red denotes revision upwards

- ✓ Inflation for FY23 unchanged at **6.7%**
- ✓ The spillover from geopolitical shocks are resulting in uncertainty to inflation trajectory

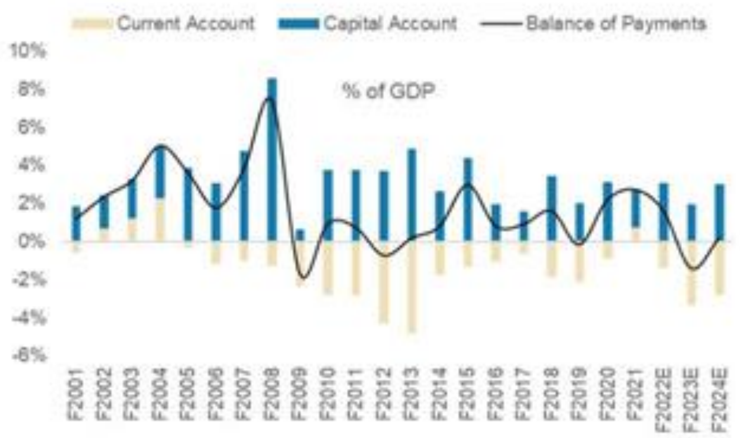
Current Account Deficit to widen

#2 External Stability - Current Account Deficit Widens to 10-year High; BoP Balance to Turn Negative

We Expect Current Account Deficit at 3.3% of GDP in F2023

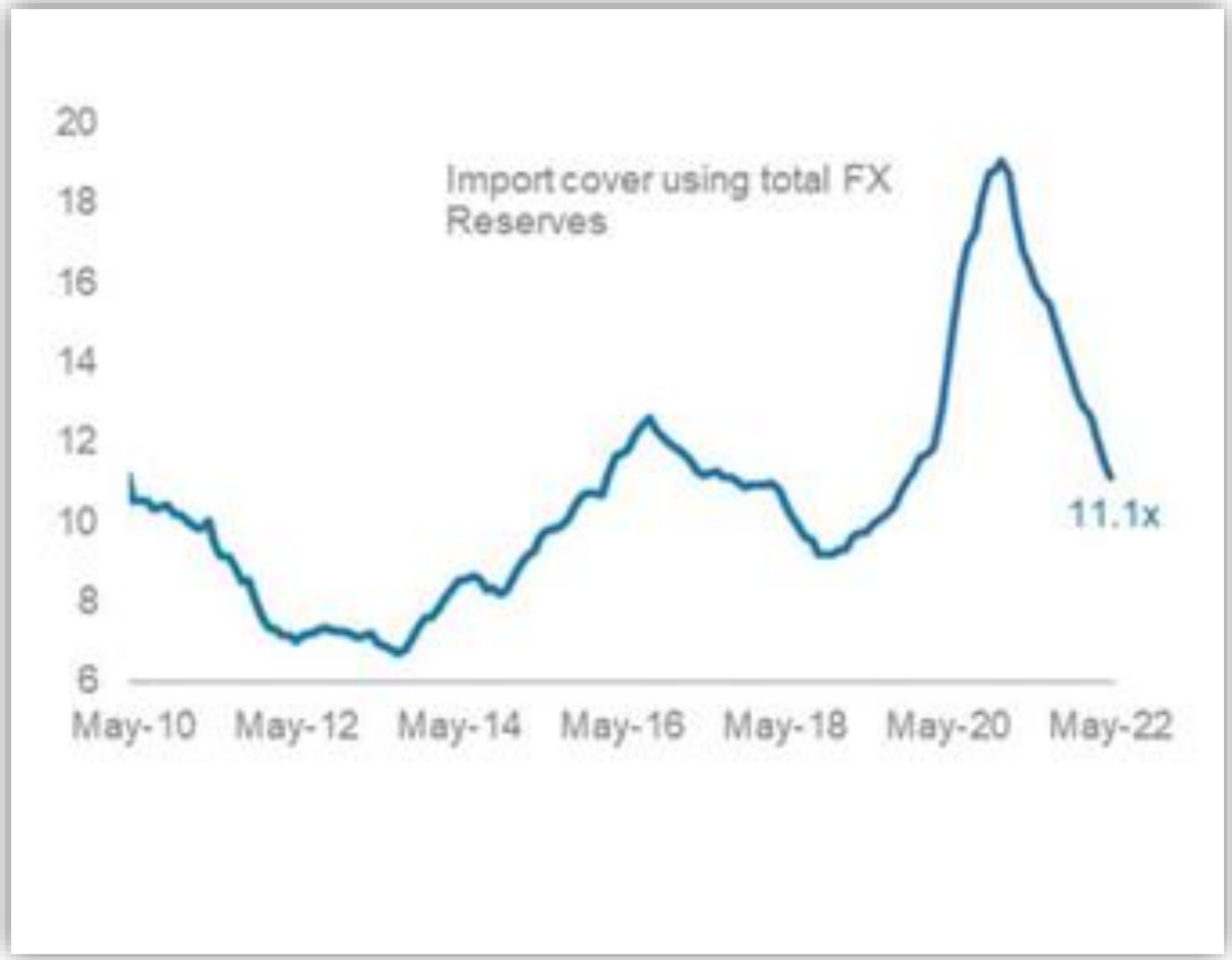


Balance of Payments To be in Deficit in F23



Source: CEIC, Morgan Stanley Research, Morgan Stanley Research Estimates

Depleting Forex reserves

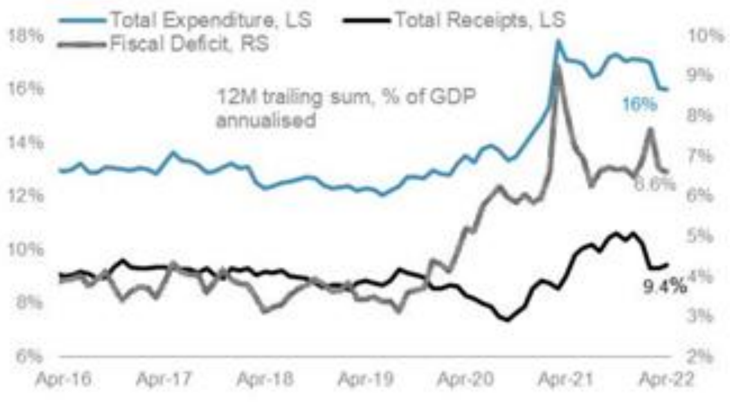


- Forex reserves at $573bn in July
- FX reserves as number of times of Import has depleted from above 18 times to 11 times recently

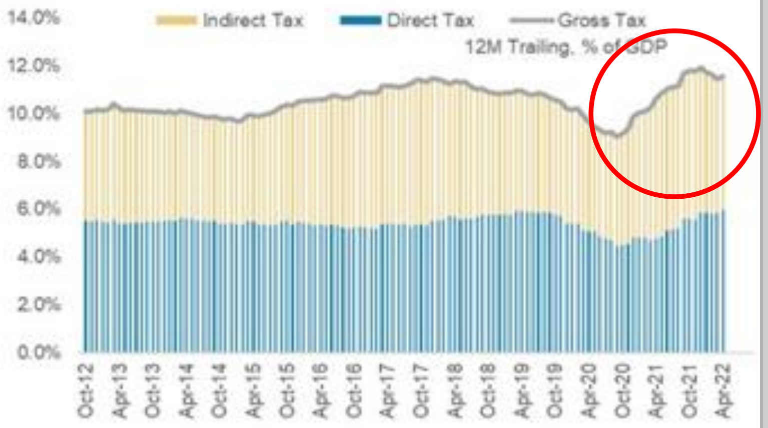
Tax buoyancy indicating resilient Growth

Government Receipts Remain Buoyant

Trend in Fiscal Indicators

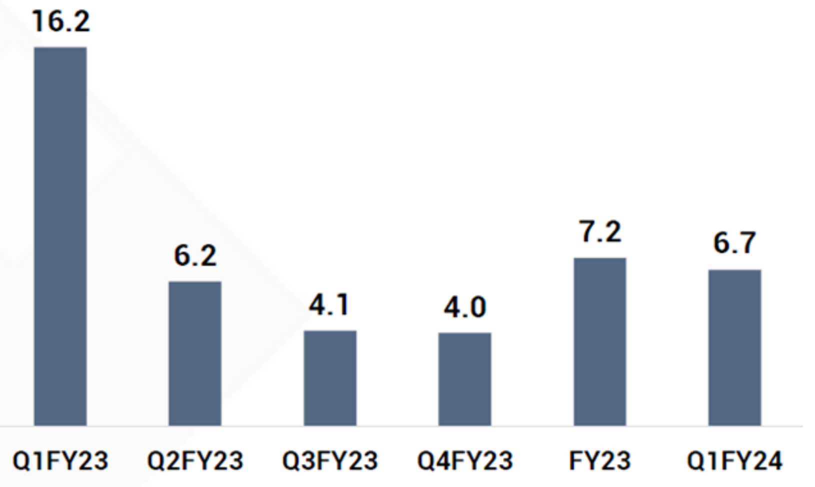


Resilient Growth in Direct and Indirect Tax



Source: CEIC, Morgan Stanley Research

GDP Growth Forecasts (%)



Market Outlook

Growth:

- Broad based growth, normal monsoon and improving urban demand to help India to be one of the fastest growing economy this FY
- Capacity utilization of Indian economy is above long term average which indicates requirement of fresh capital investments

Inflation:

- CPI would be elevated and above 6% in Q2 and Q3 of this FY
- Rising capacity utilization would impart upward pressure on core inflation

- Recession fears across US and Euro area could lower growth expectations of India going forward
- RBI is expected to increase repo rate from 5.40% to 6.0%±0.25% in this FY
- We expect yields to peak in the next 2-4 months, creating an opportunity to earn superior returns in the fixed income space.
- Investments in longer dated G-sec would generate a higher carry and also provides an opportunity to lock-in capital gains in the near term.

Thank You