

Second Bi-monthly Monetary Policy Update, 2022-23

May, 2022

The Monetary Policy Committee (MPC) decided to increase the key policy repo rate by 0.40% at 4.40%. The MPC also to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Key Outcome

- The policy repo rate under the liquidity adjustment facility (LAF) was unchanged at 4.40%.
- Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.15 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 4.65 per cent.
- The RBI has decided to hike the CRR by 50 basis points to 4.5%. This will withdraw about Rs 87,000 crore from the banking system.

Conclusion

The market was surprised when the bi-monthly monetary policy was announced. The announcement of significant monetary policy tightening from the RBI comes just ahead of the US Federal Reserve meeting today. Monetary policy tightening has come in the form of a 40 basis point hike in the repo rate to 4.4%. Alongside, the CRR has been hiked by 50 basis points to 4.5%. An increase in CRR is negative for banking stocks as they have to keep more money aside out of deposit while lending. Although a rate hike of 25bps is expected in the upcoming meeting, the quantum of the hike of 40bps shocked the market. We believe the rate-sensitive sectors (auto, consumer durables, real estate, etc.) will face demand challenges as the rate cycle has just started its northward journey. The minutes of the MPC's meeting will be published on May 18, 2022. The next meeting of the MPC is scheduled during June 6-8, 2022.

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Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

Email: retailresearch@acm.co.in

Research Analyst Registration Number:
INH000002483

CIN: U65990MH1993PLC075388

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