A Project Report

on

"An Analytical Study on Monetary Policy Committee of Reserve Bank of India for the period of April 09,2020 to June 08,2022 (COVID-19 PANDEMIC)''

Submitted to

DMSR- G. S. College of Commerce & Economics, Nagpur

Affiliated to

Rashtrasant Tukadoji Maharaj Nagpur University

Nagpur

In partial fulfilment for the award of the degree of

Master of Business Administration

Submitted by

Akhil Sunilkumar Chourse

Under the Guidance of

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NAAC Re-Accredited "A" Grade Autonomous Institution

Academic Year 2021-22

Department of Management Sciences and Research,
G.S. College of Commerce & Economics, Nagpur
NAAC Re-Accredited "A" Grade Autonomous Institution

G.S. College Of Commerce & Economics, Nagpur

CERTIFICATE

This is to certify that **"Akhil Sunilkumar Chourse"** has submitted the project report titled **"An Analytical Study on Monetary Policy Committee of Reserve Bank of India for the period of April 09,2020 to June 08,2022 (COVID-19 PANDEMIC)'',** towards partial fulfillment of **MASTER OF BUSINESS ADMINISTRATION** degree examination. This has not been submitted for any other examination and does not form part of any other course undergone by the candidate. It is further certified that he/she has ingeniously completed his/her project as prescribed by DMSR - G. S. COLLEGE OF COMMERCE & ECONOMICS, NAGPUR (NAAC Reaccredited "A" Grade Autonomous Institution) affiliated to Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur.

Dr. Afsar Sheikh
(Project Guide)

Dr. Sonali Gadekar
(Co-ordinator)

Place: Nagpur

Date: ..../07/2022

G. S. College Of Commerce & Economics,Nagpur

DECLARATION

I here-by declare that the project with title **"An Analytical Study on Monetary Policy Committee of Reserve Bank of India for the period of April 09,2020 to June 08,2022 (COVID-19 PANDEMIC)''**has been completed by me in partial fulfillment of MASTER OF BUSINESS ADMINISTRATION degree examination as prescribed by DMSR - G. S. COLLEGE OF COMMERCE & ECONOMICS, NAGPUR (NAAC Reaccredited "A" Grade Autonomous Institution) affiliated to Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur and this has not been submitted for any other examination and does not form the part of any other course undertaken by me.

"Akhil Sunilkumar Chourse"

Place:

Date:

G. S. College Of Commerce & Economics, Nagpur

ACKNOWLEDGEMENT

With immense pride and sense of gratitude, I take this golden opportunity to express my sincere regards to **Dr. N.Y. Khandait**, Principal, G.S. College of Commerce & Economics, Nagpur.

I am extremely thankful to my Project Guide **Dr. "Afsar Sheikh"** for his/her guideline throughout the project. I tender my sincere regards to Co-ordinator, **Dr. Sonali Gadekar** for giving me guidance, suggestions and invaluable encouragement which helped me in the completion of the project.

I will fail in my duty if I do not thank the Non-Teaching staff of the college for their Co-operation.

I would like to thank all those who helped me in making this project complete and successful.

"Akhil Sunilkumar Chourse"

Place: Nagpur

Date: …/07/2022

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INTRODUCTION

The Monetary Policy Committee (MPC) constituted by the Central Government under Section 45ZB determines the policy interest rate required to achieve the inflation target.

The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. Views of key stakeholders in the economy, and analytical work of the Reserve Bank contribute to the process for arriving at the decision on the policy repo rate.

The Financial Market Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of monetary policy (weighted average lending rate) is kept close to the policy repo rate.

RESERVE BANK OF INDIA

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank was initially established in Kolkata but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.
Preamble

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintainprice stability while keeping in mind the objective of growth."

LITERATURE REVIEW

In the literature, there is a general recognition that monetary policy affects real economy at least in the short run. However, there is no general agreement on the channel through which monetary policy influences the behaviour of output and prices. The theoretical explanations on monetary policy transmission have evolved over the years, with major episodes of crises playing an important role in prompting revaluations of earlier tenets. Keynes in his general theory of output andemployment described the importance of interest rate channel of monetary policy transmission. Monetarist characterisation of transmission mechanism by Friedman and Schwartz [1963] emphasised the role of money supply besides other assets.
Life cycle hypothesis by Ando and Modigliani [1963] emphasised the wealth effect, while Tobin [1969] highlighted the importance of the cost of capital and portfolio choice in the transmission of monetary policy.

The recent financial crisis has shown the inadequacy in monetary transmission mechanism through the traditional channels. Thus, during the post-crisis period, a number of studies have attempted to capture the additional dimensions of central bank policy that have been at the center stage for policy transmission. While research prior to the crisis often cast doubts on the strength of the bank lending channel, evidence during crisis showed that bank-specific characteristics, financial innovations, business models can have implications for provision of credit and smooth transmission of monetary policy. Therefore, the recent crisis has clearly highlighted the role of banks as a potential source of frictions in the transmission mechanism of monetary policy.

RESEARCH PROBLEM

We study the macroeconomic effects of the COVID-19 epidemic in a quantitative dynamic general equilibrium setup with nominal rigidities.

We evaluate various containment policies and show that they allow to dramatically reduce the welfare cost of the disease. Then we investigate the rolethat monetary policy, in its capacity to manage aggregate demand, should play during the epidemic.

According to our results, treating the observed output contraction as a standard recession leads to overly expansionary policy.

Finally, we check how central banks should resolve the trade-off between stabilizing the economy and containing the epidemic. If no administrative restrictions are in place, the second motive prevails and, despite the deep recession,optimal monetary policy is in fact contractionary.

Conversely, if sufficient containment measures are introduced, central bank interventions should be expansionary and help stabilize economic activity.

NEED OF STUDY

- To know how central bank controls inflationary pressures during COVID-19Pandemic.

- To know how tools of Monetary Policy Committee (MPC) work in overall controlof money supply in the economy

OBJECTIVES OF STUDY

- To know how Monetary Policy Committee (MPC) works to control inflation

- To know how to manage employment level through Monetary Policy

- To know how to maintain long-term interest rates through Monetary Policy

HYPOTHESIS

H1: NULL HYPOTHESIS

There is no change in Policy Rates of Monetary Policy of ReserveBank of India

H2: ALTERNATIVE HYPOTHESIS

There is significant change in Policy Rates of Monetary Policy of Reserve Bank of India

DATA COLLECTION/ SAMPLING DESIGN

The data collected for the project report is **Secondary Data.**

A large volume of primary data (mostly on financial variables) are collected by Reserve Bank of India (RBI) at various intervals (i.e. daily, weekly, fortnightly, monthly, quarterly, yearly, etc.) through its various departments for its own use and for the use of Government and public.

Though a lot of data are collected under various statutory provisions, a large quantum of information is also collected on voluntary basis through various surveys. Some of these surveys are conducted using purposive samples and severalothers are conducted using scientifically selected samples. These scientifically planned surveys are mostly conducted by the Survey Division of the **Department of Statistics and Information Management (DSIM)**. Surveys conducted by the Survey Division of DSIM are considered for this paper. These surveys are country level large scale sample surveys mostly using scientific sample designs for selecting the samples and cover the following subjects.

1. Debt and Investment Surveys. 2. Survey of Ownership of Capital of Joint Stock Companies. 3. Small Scale Industrial Surveys. 4. Survey of Traders and Transport Operators. 5. Survey of Small Borrowal Accounts. 6. Survey of FCNR and NRER Accounts. 7. Industrial Outlook Surveys.

These seven types of surveys are examined in detail beginning with its first survey and surveys of each type are described in separate sections of this paper.

The survey details comprise (1) Objective of the survey; (2) Scope and Coverage; (3) Reference Period; (4) Sample Design and Estimation Procedure; (5) Schedules/Questionnaires; (6) Field Work and Response and (7) Reports and Statistical tables published

DATA ANALYSIS & INTERPRETATION

MPC Meeting, June 6 to 8, 2022

(Under Section 45ZL of Reserve Bank of India Act, 1934)

The thirty sixth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held during June 6 to 8, 2022.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Honorary Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Rajiv Ranjan, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a) the resolution adopted at the meeting of the Monetary Policy Committee;
b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and
c) the statement of each member of the Monetary Policy Committee under sub-section

(11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail the staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (June 8, 2022) decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 4.90 per cent with immediate effect.

Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.15 per cent.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC Meeting, May 2 and 4, 2022

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The thirty fifth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held during May 2 and 4, 2022 as an off-cycle meeting to reassess the evolving inflation-growth dynamics and the impact of the developments after its meeting of April 6-8, 2022.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Honorary Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Rajiv Ranjan, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed in detail the staff's macroeconomic assessment, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (May 4, 2022) decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 40 basis points to 4.40 per cent with immediate effect.

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 MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, April 6 to 8, 2022

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The thirty fourth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from April 6 to 8, 2022.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Honorary Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

- the resolution adopted at the meeting of the Monetary Policy Committee;
- the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and
- the statement of each member of the Monetary Policy Committee under sub-section

(11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (April 8, 2022) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

The marginal standing facility (MSF) rate and the Bank Rate remain unchanged at 4.25 per cent. The standing deposit facility (SDF) rate, which will now be the floor of the LAF corridor, will be at 3.75 per cent.

- The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, February 8 to 10, 2022

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The thirty third meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from February 8 to 10, 2022.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (February 10, 2022) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, December 6 to 8, 2021

Under Section 45ZL of the Reserve Bank of India Act, 1934]

The thirty second meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from December 6 to 8, 2021.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (December 8, 2021) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, October 6 to 8, 2021

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The thirty first meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from October 6 to 8, 2021.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Emeritus Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. This was the first face to face meeting of the MPC after February 2020.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (October 8, 2021) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

The reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, August 4 to 6, 2021

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The thirtieth meeting of the Monetary Policy Committee (MPC), constituted under section 45 Z B of the Reserve Bank of India Act, 1934, was held from August 4 to 6, 2021.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth R. Varma joined the meeting through video conference.

3. According to Section 45 Z L of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

i. the resolution adopted at the meeting of the Monetary Policy Committee;

ii. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

iii. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45 Z I on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (August 6, 2021) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, June 2 to 4, 2021

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty ninth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from June 2 to 4, 2021.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth R. Varma joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (June 4, 2021) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, April 5 to 7, 2021

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty eighth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from April 5 to 7, 2021.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth R. Varma joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

(a) the resolution adopted at the meeting of the Monetary Policy Committee;

(b) the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

(c) the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (April 7, 2021) decided to:

keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, February 3 to 5, 2021

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty seventh meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from February 3 to 5, 2021.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth R. Varma joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on February 5, 2021 decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, December 2 to 4, 2020

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty sixth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from December 2 to 4, 2020.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth R. Varma joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (December 4, 2020) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, October 7 to 9, 2020

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty fifth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from October 7 to 9, 2020.

2. The meeting was attended by all the members – Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi; Dr. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB (2) (c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Shashanka Bhide, Dr. Ashima Goyal and Prof. Jayanth R. Varma joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (October 9, 2020) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, August 4 to 6, 2020

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty fourth meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from August 4 to 6, 2020.

2. The meeting was attended by all the members – Dr. Chetan Ghate, Professor, Indian Statistical Institute; Dr. Pami Dua, former Director, Delhi School of Economics; Dr. Ravindra H. Dholakia, former Professor, Indian Institute of Management, Ahmedabad; Dr. Mridul K. Saggar, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Chetan Ghate, Dr. Pami Dua and Dr. Ravindra H. Dholakia joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section (11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (August 6, 2020) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

MPC MEETING, May 20 to 22, 2020

[Under Section 45ZL of the Reserve Bank of India Act, 1934]

The twenty third meeting of the Monetary Policy Committee (MPC), constituted under section 45ZB of the Reserve Bank of India Act, 1934, was held from May 20 to 22, 2020; the meeting was originally scheduled from June 3 to 5, 2020, but was advanced to May 20-22 in view of the ongoing COVID-19 pandemic.

2. The meeting was attended by all the members – Dr. Chetan Ghate, Professor, Indian Statistical Institute; Dr. Pami Dua, former Director, Delhi School of Economics; Dr. Ravindra H. Dholakia, former Professor, Indian Institute of Management, Ahmedabad; Dr. Janak Raj, Executive Director (the officer of the Reserve Bank nominated by the Central Board under Section 45ZB(2)(c) of the Reserve Bank of India Act, 1934); Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy – and was chaired by Shri Shaktikanta Das, Governor. Dr. Chetan Ghate, Dr. Pami Dua and Dr. Ravindra H. Dholakia joined the meeting through video conference.

3. According to Section 45ZL of the Reserve Bank of India Act, 1934, the Reserve Bank shall publish, on the fourteenth day after every meeting of the Monetary Policy Committee, the minutes of the proceedings of the meeting which shall include the following, namely:

a. the resolution adopted at the meeting of the Monetary Policy Committee;

b. the vote of each member of the Monetary Policy Committee, ascribed to such member, on the resolution adopted in the said meeting; and

c. the statement of each member of the Monetary Policy Committee under sub-section

(11) of section 45ZI on the resolution adopted in the said meeting.

4. The MPC reviewed the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations and the projections of professional forecasters. The MPC also reviewed in detail staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopted the resolution that is set out below.

Resolution

5. On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (May 22, 2020) decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 40 bps to 4.0 per cent from 4.40 per cent with immediate effect;
- accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.25 per cent from 4.65 per cent; and
- the reverse repo rate under the LAF stands reduced to 3.35 per cent from 3.75 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

OCTOBER 2020

Turning to the outlook for inflation, kharif sowing portends well for food prices. Pressures on prices of key vegetables like tomatoes, onions and potatoes should also ebb by Q3 with kharif arrivals. On the other hand, prices of pulses and oilseeds are likely to remain firm due to elevated import duties. International crude oil prices have traded with a softening bias in September on a weak demand outlook, but domestic pump prices may remain elevated in the absence of any roll back of taxes. Pricing power of firms remains weak in the face of subdued demand. COVID-19-related supply disruptions, including labour shortages and high transportation costs, could continue to impose cost-push pressures, but these risks are getting mitigated by progressive easing of lockdowns and removal of restrictions on inter-state movements. Taking into consideration all these factors, CPI inflation is projected at 6.8 per cent for Q2:2020-21, at 5.4-4.5 per cent for H2:2020-21 and 4.3 per cent for Q1:2021-22, with risks broadly balanced (Chart 1).

Turning to the growth outlook, the recovery in the rural economy is expected to strengthen further, while the turnaround in urban demand is likely to be lagged in view of social distancing norms and the elevated number of COVID-19 infections. While the contact-intensive services sector will take time to regain pre-COVID levels, manufacturing firms expect capacity utilisation to recover in Q3:2020-21 and activity to gain some traction from Q4 onwards. Both private investment and exports are likely to be subdued, especially as external demand is still anaemic. Taking into consideration the above factors and the uncertain COVID-19 trajectory, real GDP growth in 2020-21 is expected to be negative at (-)9.5 per cent, with risks tilted to the downside: (-)9.8 per cent in Q2:2020-21; (-)5.6 per cent in Q3; and 0.5 per cent in Q4. Real GDP growth for Q1:2021-22 is placed at 20.6 per cent (Chart 2).

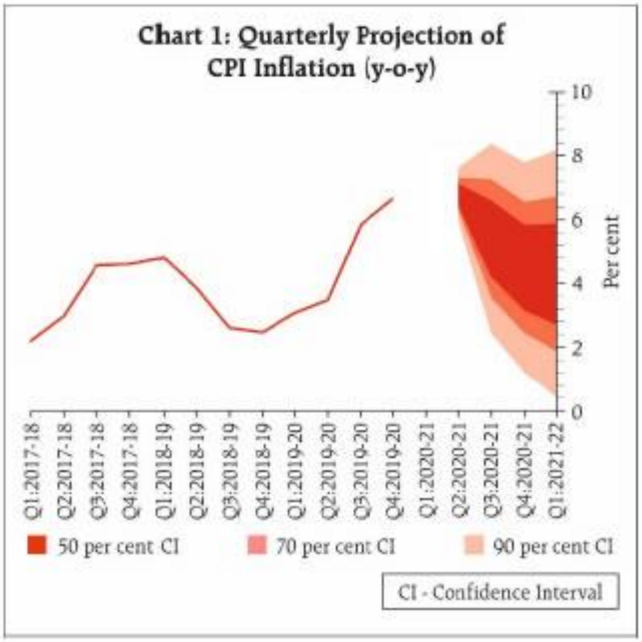


Chart 1: Quarterly Projection of CPI Inflation (y-o-y)
Per cent
0
2
4
6
8
10
Q1:2017-18
Q2:2017-18
Q3:2017-18
Q4:2017-18
Q1:2018-19
Q2:2018-19
Q3:2018-19
Q4:2018-19
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

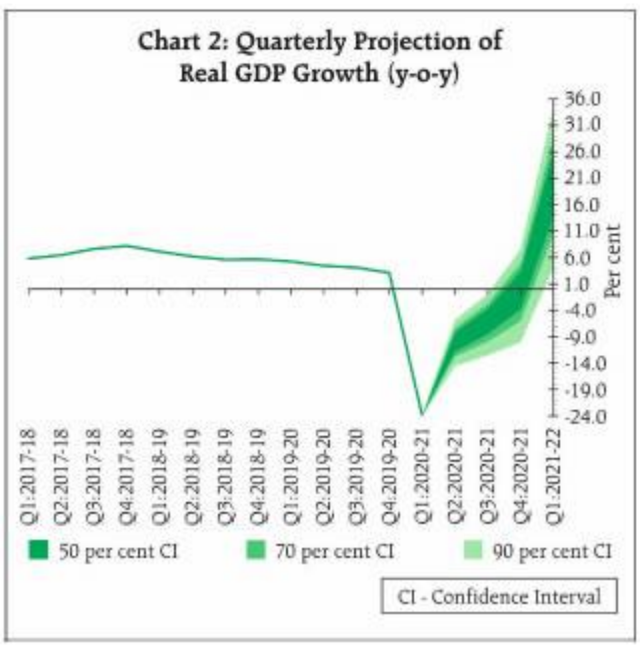
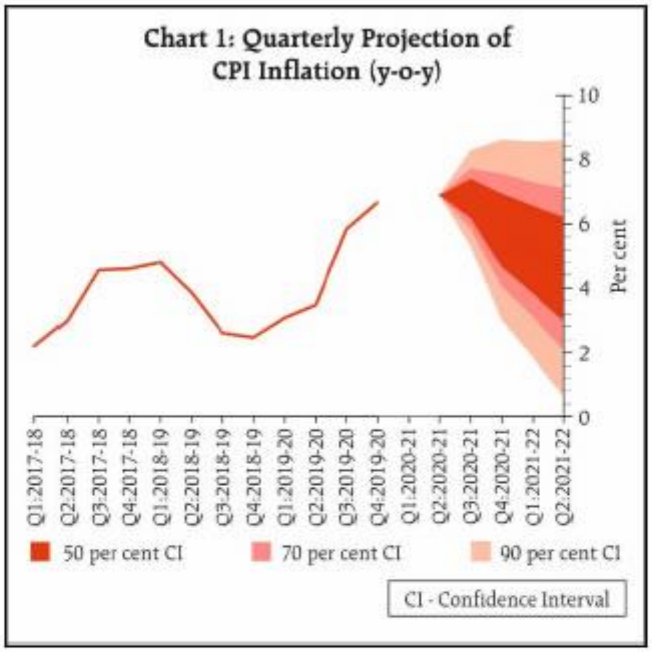


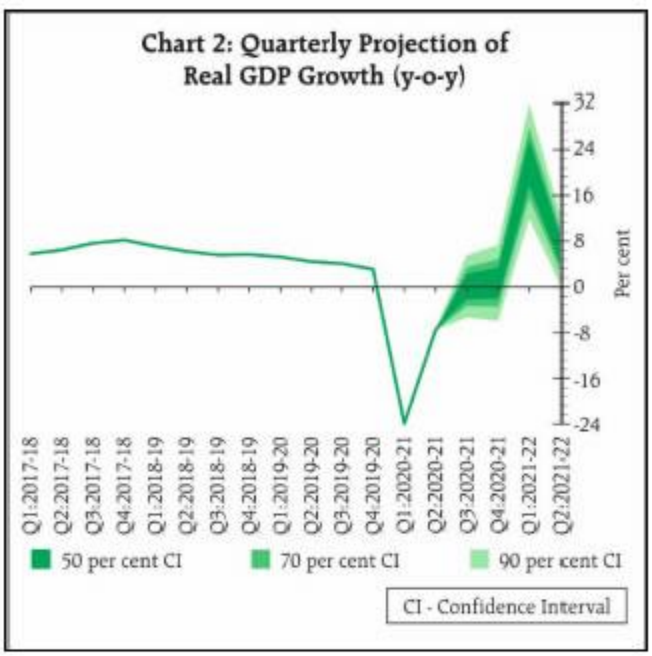
Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)
Per cent
36.0
31.0
26.0
21.0
16.0
11.0
6.0
1.0
-4.0
-9.0
-14.0
-19.0
-24.0
Q1:2017-18
Q2:2017-18
Q3:2017-18
Q4:2017-18
Q1:2018-19
Q2:2018-19
Q3:2018-19
Q4:2018-19
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

DECEMBER 2020

The outlook for inflation has turned adverse relative to expectations in the last two months. The substantial wedge between wholesale and retail inflation points to the supply-side bottlenecks and large margins being charged to the consumer. While cereal prices may continue to soften with the bumper kharif harvest arrivals and vegetable prices may ease with the winter crop, other food prices are likely to persist at elevated levels. Crude oil prices have picked up on optimism of demand recovery, continuation of OPEC plus production cuts and are expected to remain volatile in the near-term. Cost-push pressures continue to impinge on core inflation, which has remained sticky and could firm up as economic activity normalises and demand picks up. Taking into consideration all these factors, CPI inflation is projected at 6.8 per cent for Q3:2020-21, 5.8 per cent for Q4:2020-21; and 5.2 per cent to 4.6 per cent in H1:2021-22, with risks broadly balanced (Chart 1).

Turning to the growth outlook, the recovery in rural demand is expected to strengthen further, while urban demand is also gaining momentum as unlocking spurs activity and employment, especially of labour displaced by COVID-19. These positive impulses are, however, clouded by a possible rise in infections in some parts of the country, prompting some local containment measures. At the same time, the recovery rate has crossed 94 per cent and there is considerable optimism on successes in vaccine trials. Consumers remain optimistic about the outlook, and business sentiment of manufacturing firms is gradually improving. Fiscal stimulus is increasingly moving beyond being supportive of consumption and liquidity to supporting growth-generating investment. On the other hand, private investment is still slack and capacity utilisation has not fully recovered. While exports are on an uneven recovery, the prospects have brightened with the progress on the vaccines. Demand for contact-intensive services is likely to remain subdued for some time due to social distancing norms and risk aversion. Taking these factors into consideration, real GDP growth is projected at (-)7.5 per cent in 2020-21: (+)0.1 per cent in Q3:2020-21 and (+)0.7 per cent in Q4:2020-21; and (+)21.9 per cent to (+)6.5 per cent in H1:2021-22, with risks broadly balanced (Chart 2).

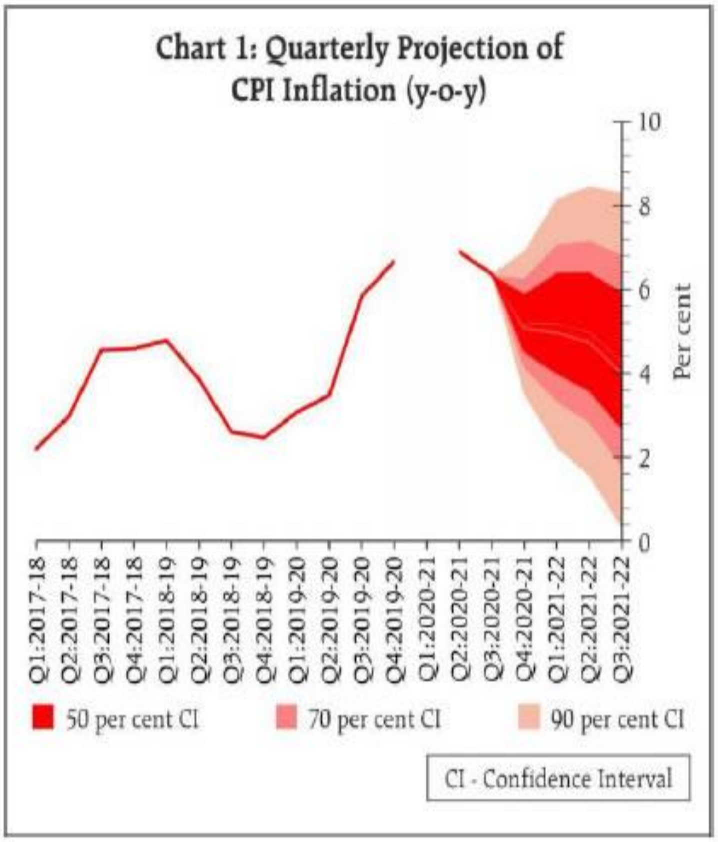


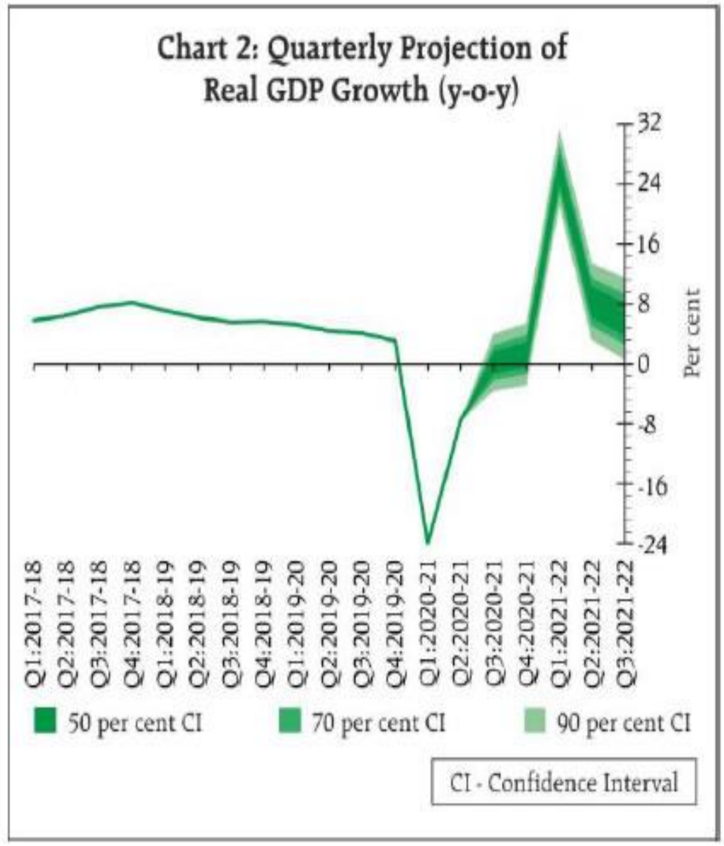


FEBRUARY 2021

With the larger than anticipated deflation in vegetable prices in December bringing down headline closer to the target, it is likely that the food inflation trajectory will shape the near-term outlook. The bumper kharif crop, rising prospects of a good rabi harvest, larger winter arrivals of key vegetables and softer egg and poultry demand on avian flu fears are factors auguring a benign inflation outcome in the months ahead. On the other hand, price pressures may persist in respect of pulses, edible oils, spices and non-alcoholic beverages. The outlook for core inflation is likely to be impacted by further easing in supply chains; however, broad-based escalation in cost-push pressures in services and manufacturing prices due to increase in industrial raw material prices could impart upward pressure. Furthermore, there could be increased pass-through to output prices as demand normalises as indicated in the Reserve Bank's industrial outlook, services and infrastructure outlook surveys and purchasing managers' indices (PMIs) and firms regain pricing power. International crude oil prices may remain supported by demand build up on optimism from vaccination and continuing production cuts by OPEC plus. The crude oil futures curve has become downward sloping since December 2020. Taking into consideration all these factors, the projection for CPI inflation has been revised to 5.2 per cent in Q4:2020-21, 5.2 per cent to 5.0 per cent in H1:2021-22 and 4.3 per cent in Q3: 2021-22, with risks broadly balanced (Chart 1).

Turning to the growth outlook, rural demand is likely to remain resilient on good prospects of agriculture. Urban demand and demand for contact-intensive services is expected to strengthen with the substantial fall in COVID-19 cases and the spread of vaccination. Consumer confidence is reviving and business expectations of manufacturing, services and infrastructure remain upbeat. The fiscal stimulus under AtmaNirbhar 2.0 and 3.0 schemes of government will likely accelerate public investment, although private investment remains sluggish amidst still low capacity utilisation. The Union Budget 2021-22, with its thrust on sectors such as health and well-being, infrastructure, innovation and research, among others, should help accelerate the growth momentum. Taking these factors into consideration, real GDP growth is projected at 10.5 per cent in 2021-22 – in the range of 26.2 to 8.3 per cent in H1 and 6.0 per cent in Q3 (Chart 2).





APRIL 2021

The evolving CPI inflation trajectory is likely to be subjected to both upside and downside pressures. The bumper foodgrains production in 2020-21 should sustain softening of cereal prices going forward. While the prices of pulses, particularly tur and urad, remain elevated, the incoming rabi harvest arrivals in the markets and the overall increase in domestic production in 2020-21 should augment supply which, along with imports, should enable some softening of these prices going forward. While edible oils inflation has been ruling at heightened levels with international prices remaining firm, reduction of import duties and appropriate incentives to enhance productivity domestically could work towards a better demand-supply balance over the medium-term. Pump prices of petroleum products have remained high. Reduction of excise duties and cesses and state level taxes could provide some relief to consumers on top of the recent easing of international crude prices. This could slow down the propagation of second-round effects. The impact of high international commodity prices and increased logistics costs are being felt across manufacturing and services. Finally, inflation expectations of urban households one year ahead showed a marginal increase than over the three months ahead horizon according to the Reserve Bank’s March 2021 survey. Taking into consideration all these factors, CPI inflation is now projected as 5.0 per cent in Q4:2020-21; 5.2 per cent in Q1:2021-22, 5.2 per cent in Q2, 4.4 per cent in Q3 and 5.1 per cent in Q4, with risks broadly balanced (Chart 1).

Turning to the growth outlook, rural demand remains buoyant and record agriculture production for 2020-21 bodes well for its resilience. Urban demand has been gaining strength on the back of normalisation of economic activity and should get a fillip with the ongoing vaccination drive. The fiscal stimulus from increased allocation for capital expenditure under the Union Budget 2021-22, expanded production-linked incentives

(PLI) scheme and rising capacity utilisation (from 63.3 per cent in Q2 to 66.6 per cent in Q3:2020-21) should provide strong support to investment demand and exports. Firms engaged in manufacturing, services and infrastructure polled by the Reserve Bank in March 2021 were optimistic about a pick-up in demand and expansion in business activity into 2021-22. Consumer confidence, on the other hand, has dipped with the recent surge in COVID infections in some states imparting uncertainty to the outlook. Taking these factors into consideration, the projection of real GDP growth for 2021-22 is retained at 10.5 per cent consisting of 26.2 per cent in Q1, 8.3 per cent in Q2, 5.4 per cent in Q3 and 6.2 per cent in Q4 (Chart 2).

Chart 1: Quarterly Projection of CPI Inflation (y-o-y)

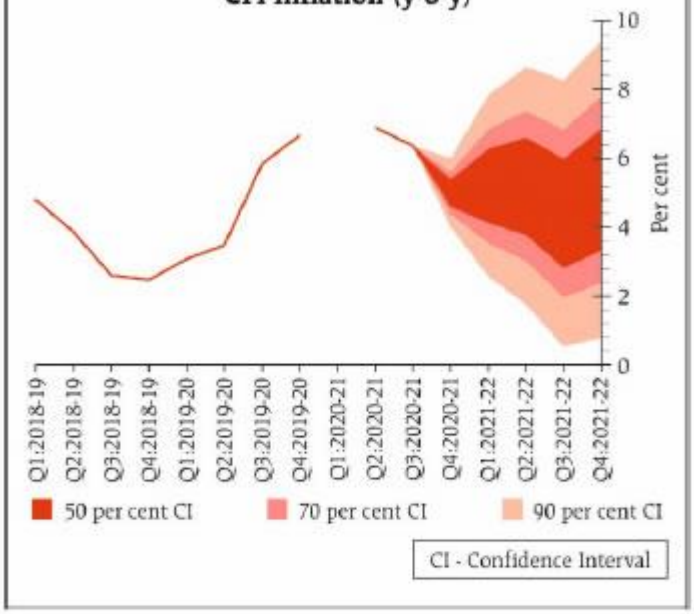
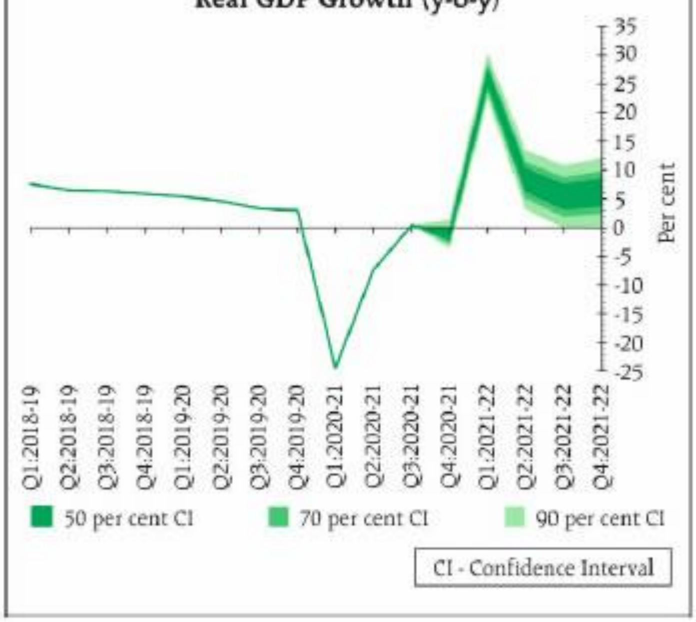


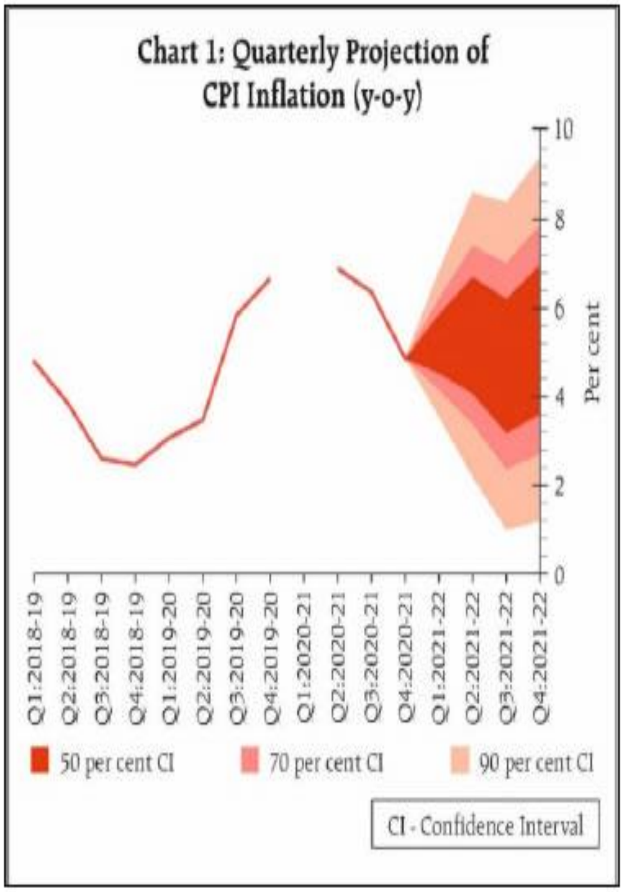
Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)

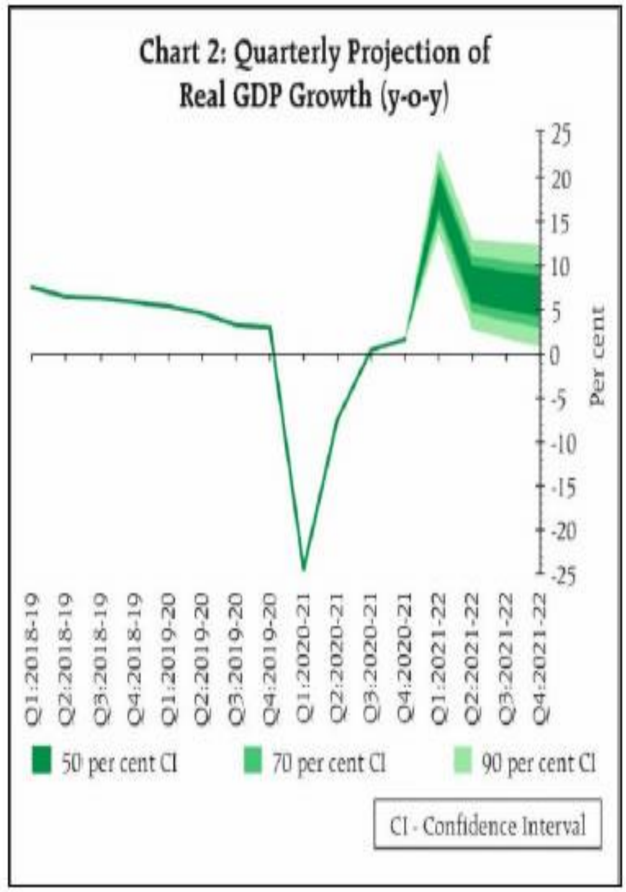


JUNE 2021

Going forward, the inflation trajectory is likely to be shaped by uncertainties impinging on the upside and the downside. The rising trajectory of international commodity prices, especially of crude, together with logistics costs, pose upside risks to the inflation outlook. Excise duties, cess and taxes imposed by the Centre and States need to be adjusted in a coordinated manner to contain input cost pressures emanating from petrol and diesel prices. A normal south-west monsoon along with comfortable buffer stocks should help to keep cereal price pressures in check. Recent supply side interventions are expected to ameliorate the tightness in the pulses market. Further supply side measures are needed to soften pressures on pulses and edible oil prices. With declining infections, restrictions and localised lockdowns across states could ease gradually and mitigate disruptions to supply chains, reducing cost pressures. Weak demand conditions may also temper the pass-through to core inflation. Taking into consideration all these factors, CPI inflation is projected at 5.1 per cent during 2021-22: 5.2 per cent in Q1; 5.4 per cent in Q2; 4.7 per cent in Q3; and 5.3 per cent in Q4:2021-22; with risks broadly balanced (Chart 1).

Turning to the growth outlook, rural demand remains strong and the expected normal monsoon bodes well for sustaining its buoyancy, going forward. The increased spread of COVID-19 infections in rural areas, however, poses downside risks. Urban demand has been dented by the second wave, but adoption of new COVID-compatible occupational models by businesses for an appropriate working environment may cushion the hit to economic activity, especially in manufacturing and services sectors that are not contact intensive. On the other hand, the strengthening global recovery should support the export sector. Domestic monetary and financial conditions remain highly accommodative and supportive of economic activity. Moreover, the vaccination process is expected to gather steam in the coming months and should help to normalise economic activity quickly. Taking these factors into consideration, real GDP growth is now projected at 9.5 per cent in 2021-22, consisting of 18.5 per cent in Q1; 7.9 per cent in Q2; 7.2 per cent in Q3; and 6.6 per cent in Q4:2021-22 (Chart 2).





AUGUST 2021

Going forward, the revival of south-west monsoon and the pick-up in kharif sowing, buffered by adequate food stocks should help to control cereal price pressures. High frequency indicators suggest some softening of price pressures in edible oils and pulses in July in response to supply side interventions by the Government. Input prices are rising across manufacturing and services sectors, but weak demand and efforts towards cost cutting are tempering the pass-through to output prices. With crude oil prices at elevated levels, a calibrated reduction of the indirect tax component of pump prices by the Centre and states can help to substantially lessen cost pressures. Taking into consideration all these factors, CPI inflation is now projected at 5.7 per cent during 2021-22: 5.9 per cent in Q2; 5.3 per cent in Q3; and 5.8 per cent in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.1 per cent (Chart 1).

Domestic economic activity is starting to recover with the ebbing of the second wave. Looking ahead, agricultural production and rural demand are expected to remain resilient. Urban demand is likely to mend with a lag as manufacturing and non-contact intensive services resume on a stronger pace, and the release of pent-up demand acquires a durable character with an accelerated pace of vaccination. Buoyant exports, the expected pick-up in government expenditure, including capital expenditure, and the recent economic package announced by the Government will provide further impetus to aggregate demand. Although investment demand is still anaemic, improving capacity utilisation and congenial monetary and financial conditions are preparing the ground for a long-awaited revival. Firms polled in the Reserve Bank surveys expect expansion in production volumes and new orders in Q2:2021-22, which is likely to sustain through Q4. Elevated levels of global commodity prices and financial market volatility are, however, the main downside risks. Taking all these factors into consideration, projection for real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 21.4 per cent in Q1; 7.3 per cent in Q2; 6.3 per cent in Q3; and 6.1 per cent in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2 per cent (Chart 2).

Chart 1: Quarterly Projection of CPI Inflation (y-o-y)

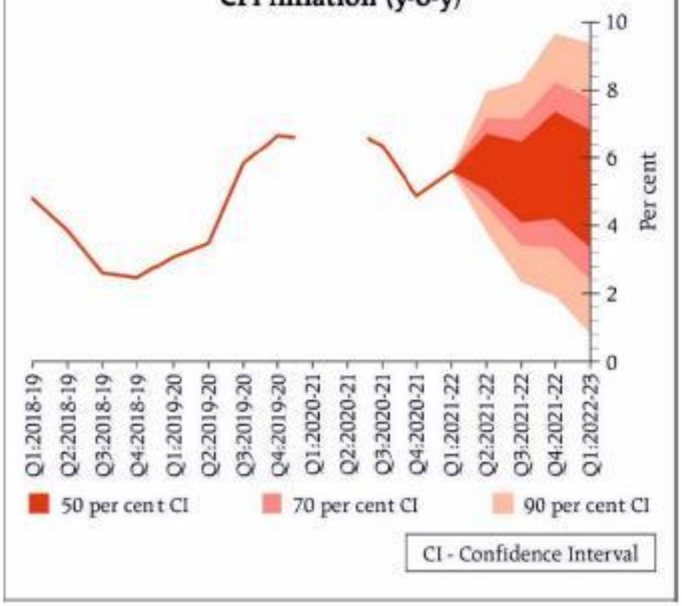
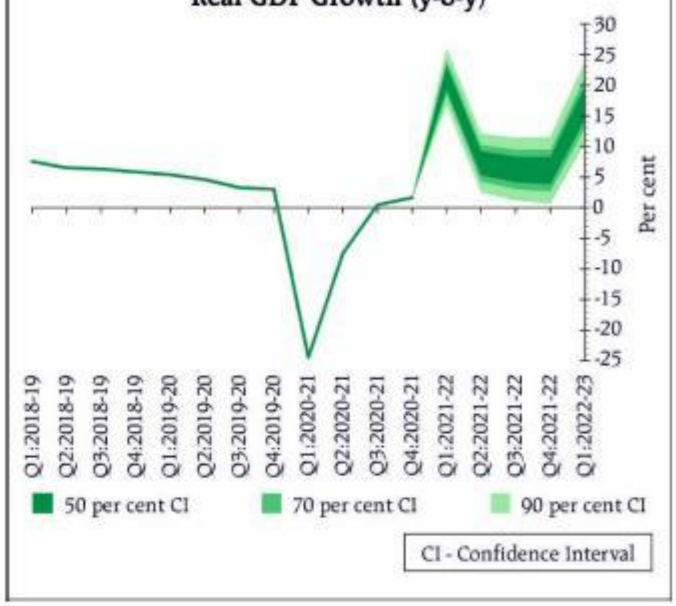


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)



OCTOBER 2021

Going forward, the inflation trajectory is set to edge down during Q3:2021-22, drawing comfort from the recent catch-up in kharif sowing and likely record production. Along with adequate buffer stock of foodgrains, these factors should help to keep cereal prices range bound. Vegetable prices, a major source of inflation volatility, have remained contained in the year so far and are likely to remain soft, assuming no disruption due to unseasonal rains. Supply side interventions by the Government in the case of pulses and edible oils are helping to bridge the demand supply gap; the situation is expected to improve with kharif harvest arrivals. The resurgence of edible oils prices in the recent period, however, is a cause of concern. On the other hand, pressures persist from crude oil prices which remain volatile over uncertainties on the global supply and demand conditions. Domestic pump prices remain at very high levels. Rising metals and energy prices, acute shortage of key industrial components and high logistics costs are adding to input cost pressures. Weak demand conditions, however, are tempering the pass-through to output prices. The CPI headline momentum is moderating with the easing of food prices which, combined with favourable base effects, could bring about a substantial softening in inflation in the near-term. Taking into consideration all these factors, CPI inflation is projected at 5.3 per cent for 2021-22; 5.1 per cent in Q2, 4.5 per cent in Q3; 5.8 per cent in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.2 per cent (Chart 1).

Domestic economic activity is gaining traction with the ebbing of the second wave. Going forward, rural demand is likely to maintain its buoyancy, given the above normal kharif sowing while rabi prospects are bright. The substantial acceleration in the pace of vaccination, the sustained lowering of new infections and the coming festival season should support a rebound in the pent-up demand for contact intensive services, strengthen the demand for non-contact intensive services, and bolster urban demand. Monetary and financial conditions remain easy and supportive of growth. Capacity utilisation is improving, while the business outlook and consumer confidence are reviving. The broad-based reforms by the government focusing on infrastructure development, asset monetisation, taxation, telecom sector and banking sector should boost investor confidence, enhance capacity expansion and facilitate crowding in of private investment. The production-linked incentive (PLI) scheme augurs well for domestic manufacturing and exports. Global semiconductor shortages, elevated commodity prices and input costs, and potential global financial market volatility are key downside risks to domestic growth prospects, along with uncertainty around the future COVID-19 trajectory. Taking all these factors into consideration, projection for real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 7.9 per cent in Q2; 6.8 per cent in Q3; and 6.1 per cent in Q4 of 2021-22. Real GDP growth for Q1:2022-23 is projected at 17.2 per cent (Chart 2).

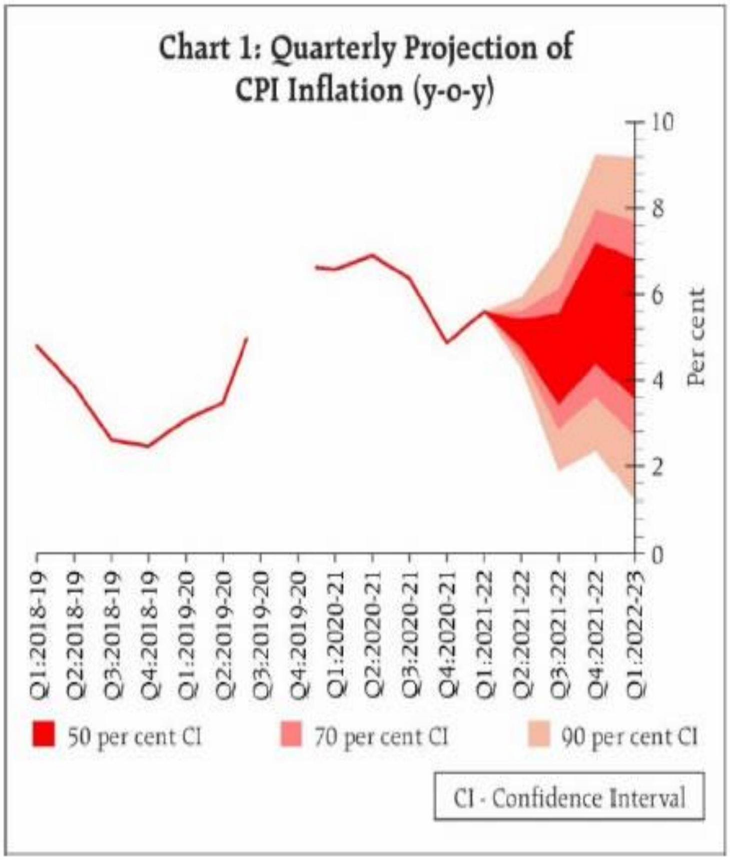


Chart 1: Quarterly Projection of CPI Inflation (y-o-y)
Per cent
10
8
6
4
2
0
Q1:2018-19
Q2:2018-19
Q3:2018-19
Q4:2018-19
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

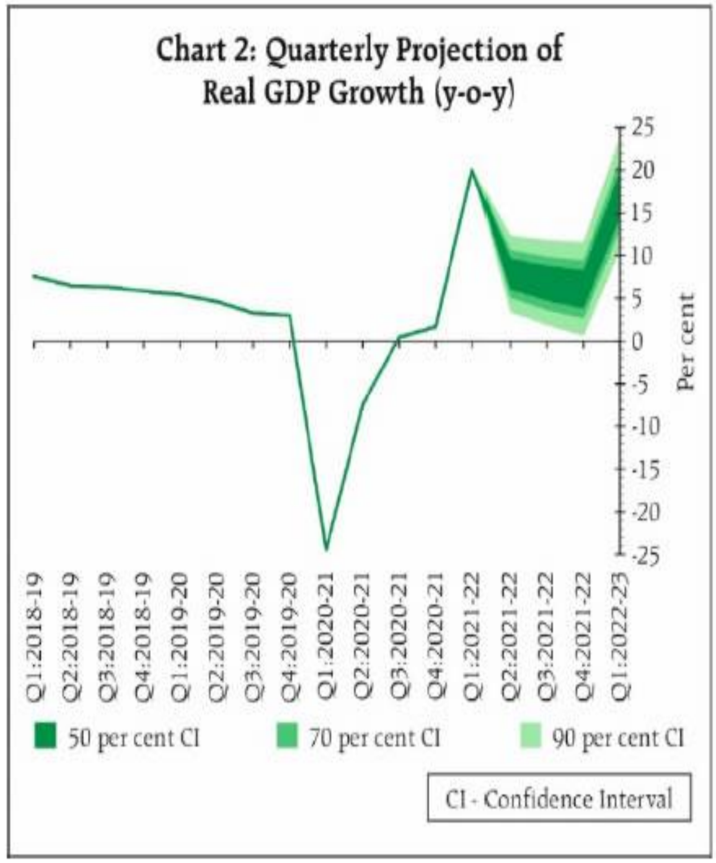


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)
Per cent
25
20
15
10
5
0
-5
-10
-15
-20
-25
Q1:2018-19
Q2:2018-19
Q3:2018-19
Q4:2018-19
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

DECEMBER 2021

The inflation trajectory, going forward, will be conditioned by a number of factors. The flare-up in vegetables prices due to heavy rains in October and November is likely to reverse with the winter arrivals. Rabi sowing is progressing well and is set to exceed last year's acreage. Recent pro-active supply side interventions by the Government continue to restrain the pass-through of elevated international edible oil prices to domestic retail inflation. Crude prices have seen a significant correction in recent period. Cost-push pressures from high industrial raw material prices, transportation costs, and global logistics and supply chain bottlenecks continue to impinge on core inflation. The slack in the economy is muting the pass-through of rising input costs to output prices. Taking into consideration all these factors, CPI inflation is projected at 5.3 per cent for 2021-22; 5.1 per cent in Q3; 5.7 per cent in Q4:2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.0 per cent and for Q2 at 5.0 per cent (Chart 1).

The recovery in domestic economic activity is turning increasingly broad-based, with the expanding vaccination coverage, slump in fresh COVID-19 cases and rapid normalisation of mobility. Rural demand is expected to remain resilient. The spurt in contact-intensive activities and pent-up demand will continue to bolster urban demand. The government's infrastructure push, the widening of the performance-linked incentive scheme, structural reforms, recovering capacity utilisation and benign liquidity and financial conditions provide conducive conditions for private investment demand. The Reserve Bank's surveys point to improving business outlook and consumer confidence. On the other hand, volatile commodity prices, persisting global supply disruptions, new mutations of the virus and financial market volatility pose downside risks to the outlook. Taking all these factors into consideration and assuming no resurgence in COVID-19 infections in India, the projection for real GDP growth is retained at 9.5 per cent in 2021-22 consisting of 6.6 per cent in Q3; and 6.0 per cent in Q4:2021-22. Real GDP growth is projected at 17.2 per cent for Q1:2022-23 and at 7.8 per cent for Q2 (Chart 2).

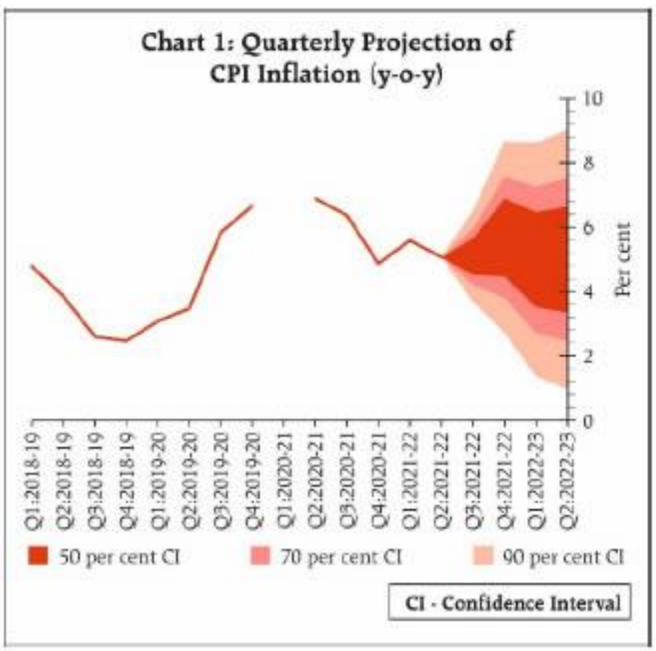


Chart 1: Quarterly Projection of CPI Inflation (y-o-y)

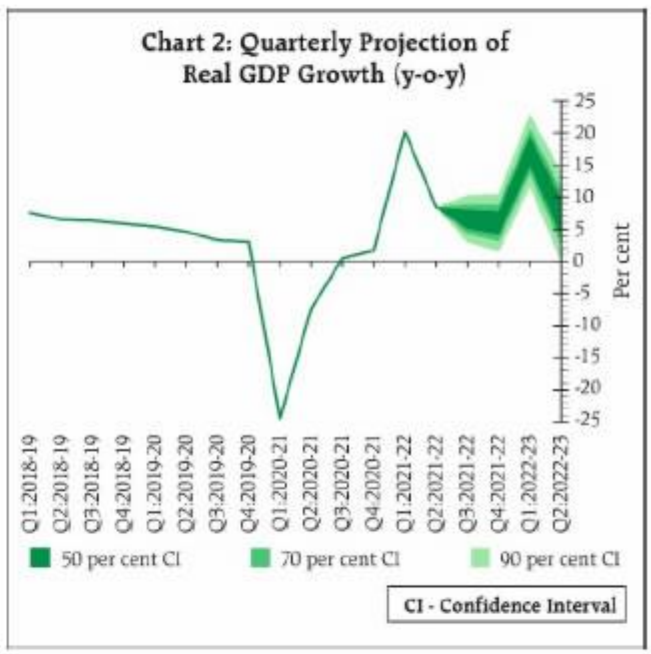


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)

FEBRUARY 2022

Since the December 2021 MPC meeting, CPI inflation has moved along the expected trajectory. Going forward, vegetables prices are expected to ease further on fresh winter crop arrivals. The softening in pulses and edible oil prices is likely to continue in response to strong supply-side interventions by the Government and increase in domestic production. Prospects of a good Rabi harvest add to the optimism on the food price front. Adverse base effect, however, is likely to prevent a substantial easing of food inflation in January. The outlook for crude oil prices is rendered uncertain by geopolitical developments even as supply conditions are expected to turn more favourable during 2022. While cost-push pressures on core inflation may continue in the near term, the Reserve Bank surveys point to some softening in the pace of increase in selling prices by the manufacturing and services firms going forward, reflecting subdued pass-through. On balance, the inflation projection for 2021-22 is retained at 5.3 per cent, with Q4 at 5.7 per cent. On the assumption of a normal monsoon in 2022, CPI inflation for 2022-23 is projected at 4.5 per cent with Q1:2022-23 at 4.9 per cent; Q2 at 5.0 per cent; Q3 at 4.0 per cent; and Q4:2022-23 at 4.2 per cent, with risks broadly balanced (Chart 1).

Recovery in domestic economic activity is yet to be broad-based, as private consumption and contact-intensive services remain below pre-pandemic levels. Going forward, the outlook for the Rabi crop bodes well for agriculture and rural demand. The impact of the ongoing third wave of the pandemic on the recovery is likely to be limited relative to the earlier waves, improving the outlook for contact-intensive services and urban demand. The announcements in the Union Budget 2022-23 on boosting public infrastructure through enhanced capital expenditure are expected to augment growth and crowd in private investment through large multiplier effects. The pick-up in non-food bank credit, supportive monetary and liquidity conditions, sustained buoyancy in merchandise exports, improving capacity utilisation and stable business outlook augur well for aggregate demand. Global financial market volatility, elevated international commodity prices, especially crude oil, and continuing global supply-side disruptions pose downside risks to the outlook. Taking all these factors into consideration, the real GDP growth for 2022-23 is projected at 7.8 per cent with Q1:2022-23 at 17.2 per cent; Q2 at 7.0 per cent; Q3 at 4.3 per cent; and Q4:2022-23 at 4.5 per cent (Chart 2).

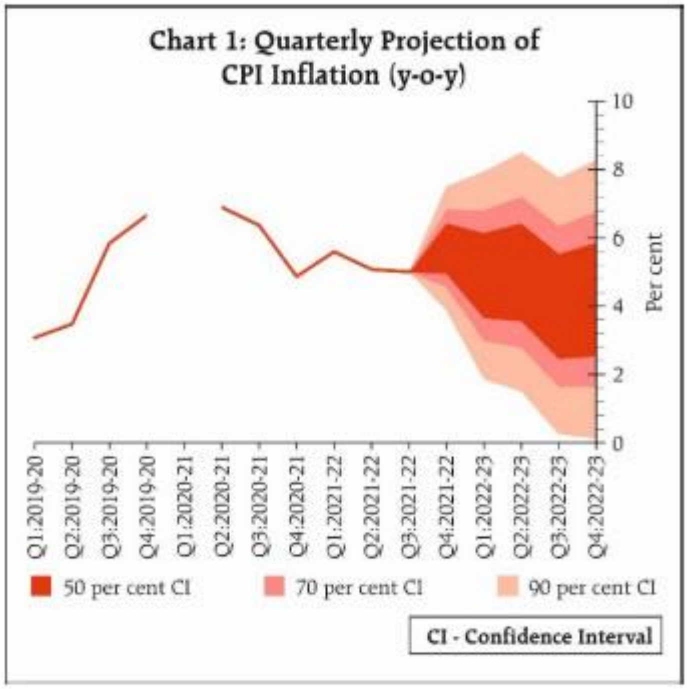


Chart 1: Quarterly Projection of CPI Inflation (y-o-y)
Per cent
0
2
4
6
8
10
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
Q2:2022-23
Q3:2022-23
Q4:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

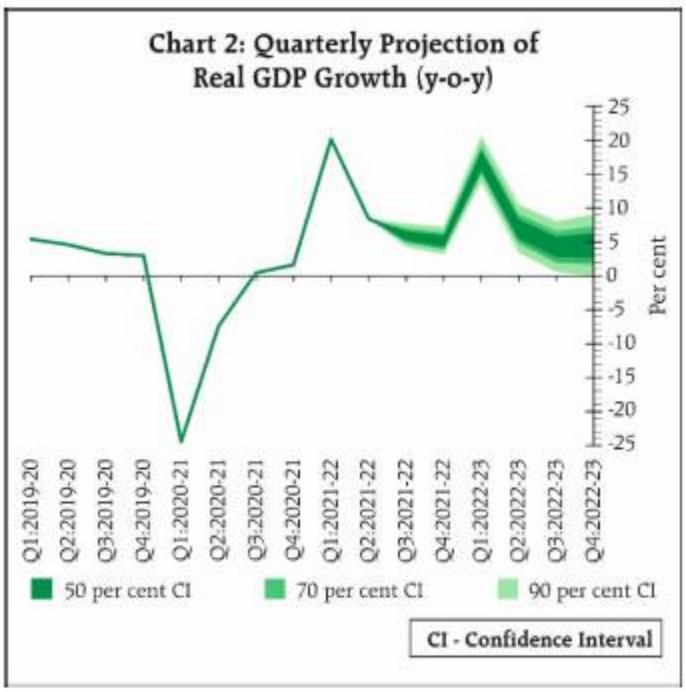


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)
Per cent
25
20
15
10
5
0
-5
-10
-15
-20
-25
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
Q2:2022-23
Q3:2022-23
Q4:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

APRIL 2022

Looking ahead, the inflation trajectory will depend critically upon the evolving geopolitical situation and its impact on global commodity prices and logistics. On food prices, domestic prices of cereals have registered increases in sympathy with international prices, though record foodgrains production and buffer stock levels should prevent a major flare up in domestic prices. Elevated global price pressures in key food items such as edible oils, and in animal and poultry feed due to global supply shortages impart high uncertainty to the food price outlook, warranting continuous monitoring.

In this scenario, pro-active supply management is critical to contain inflation. International crude oil prices remain volatile and elevated, with considerable uncertainties surrounding global supplies. With the broad-based surge in prices of key industrial inputs and global supply chain disruptions, input cost push pressures appear likely to persist for longer than expected earlier. Their pass-through to retail prices, though limited till now given the continuing slack in the economy, needs to be monitored carefully. Manufacturing sector firms polled in the Reserve Bank’s industrial outlook survey expect higher input and output price pressures going forward. Taking into account these factors and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US$ 100 per barrel, inflation is now projected at 5.7 per cent in 2022-23, with Q1 at 6.3 per cent; Q2 at 5.8 per cent; Q3 at 5.4 per cent; and Q4 at 5.1 per cent (Chart 1).

Going forward, good prospects of rabi output augur well for rural demand. With the ebbing of the third wave and expanding vaccination coverage, the pick-up in contact-intensive services and urban demand is expected to be sustained. The government’s thrust on capital expenditure coupled with initiatives such as the production linked incentive (PLI) scheme should bolster private investment activity, amidst improving capacity utilisation, deleveraged corporate balance sheets, higher offtake of bank credit and congenial financial conditions. At the same time, the escalation of the geopolitical situation and the accompanying surge in international crude oil and other commodity prices, tightening of global financial conditions, persistence of supply-side disruptions and significantly weaker external demand pose downside risks to the outlook. The future course of the pandemic and the uncertainties about the pace of monetary policy normalisation in major advanced economies also weigh on the outlook. Taking all these factors into consideration, the real GDP growth for 2022-23 is now projected at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent; and Q4 at 4.0 per cent, with risks broadly balanced (Chart 2).

Chart 1: Quarterly Projection of CPI Inflation (y-o-y)

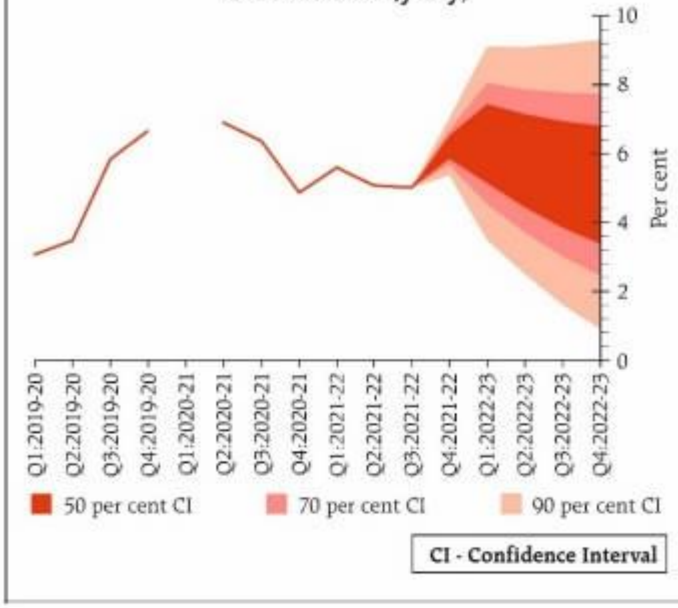
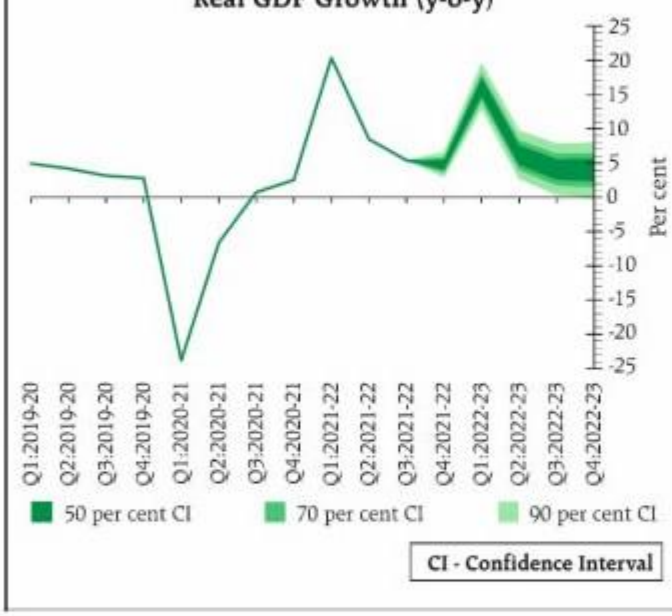


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)



JUNE 2022

The tense global geopolitical situation and the consequent elevated commodity prices impart considerable uncertainty to the domestic inflation outlook. The restrictions on wheat exports should improve the domestic supplies but the shortfall in the rabi production due to the heat wave could be an offsetting risk. The forecast of a normal south-west monsoon augurs well for the kharif agricultural production and the food price outlook. Edible oil prices remain under pressure on adverse global supply conditions, notwithstanding some recent correction due to the lifting of export ban by a major supplier. Consequent to the recent reduction in excise duties, domestic retail prices of petroleum products have moderated. International crude oil prices, however, remain elevated, with risks of further pass-through to domestic pump prices. There are also upside risks from revisions in the prices of electricity. Early results from manufacturing, services and infrastructure sector firms polled in the Reserve Bank's surveys expect further input and output price pressures going forward. Taking into account these factors, and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US$ 105 per barrel, inflation is now projected at 6.7 per cent in 2022-23, with Q1 at 7.5 per cent; Q2 at 7.4 per cent; Q3 at 6.2 per cent; and Q4 at 5.8 per cent, with risks evenly balanced (Chart 1).

The recovery in domestic economic activity is gathering strength. Rural consumption should benefit from the likely normal south-west monsoon and the expected improvement in agricultural prospects. A rebound in contact-intensive services is likely to bolster urban consumption, going forward. Investment activity is expected to be supported by improving capacity utilisation, the government's capex push, and strengthening bank credit. Growth of merchandise and services exports is set to sustain the recent buoyancy. Spillovers from prolonged geopolitical tensions, elevated commodity prices, continued supply bottlenecks and tightening global financial conditions nevertheless weigh on the outlook. Taking all these factors into consideration, the real GDP growth projection for 2022-23 is retained at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent; and Q4 at 4.0 per cent, with risks broadly balanced (Chart 2).

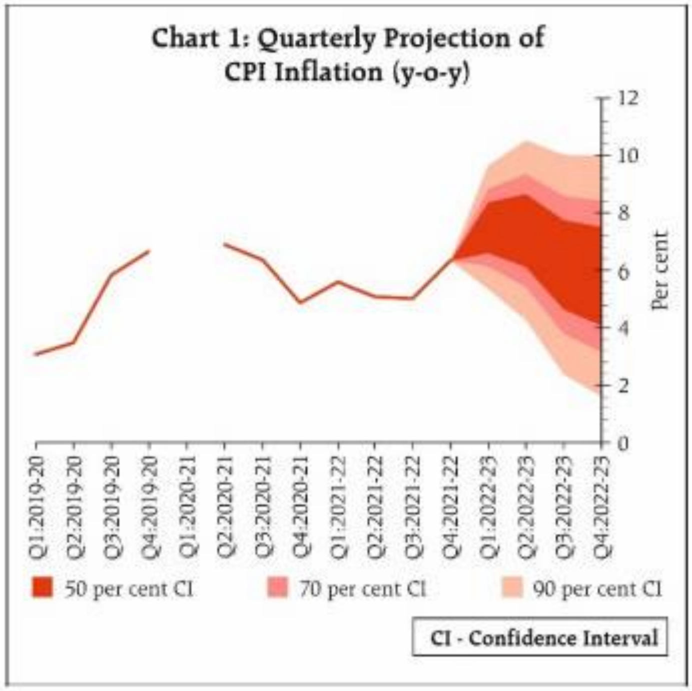


Chart 1: Quarterly Projection of CPI Inflation (y-o-y)
Per cent
12
10
8
6
4
2
0
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
Q2:2022-23
Q3:2022-23
Q4:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

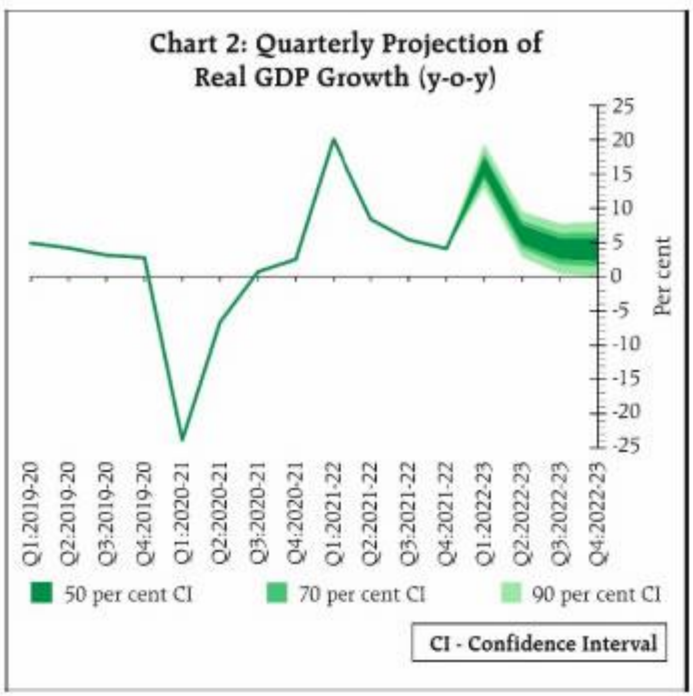
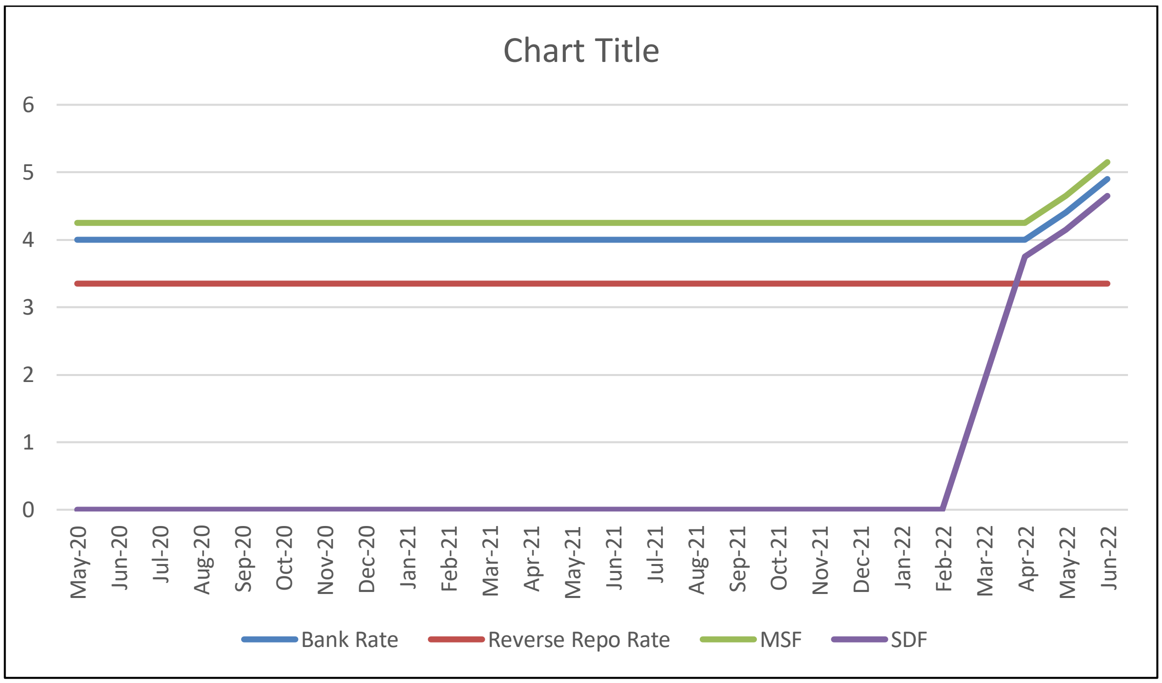


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)
Per cent
25
20
15
10
5
0
-5
-10
-15
-20
-25
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
Q2:2022-23
Q3:2022-23
Q4:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

Graphical Representation of Various Policy Rates



FINDINGS

The inflationary pressures have increased significantly since the MPC meetings of April 2022 and May 2022. The headline CPI inflation rose to 7.0 per cent in March and 7.8 per cent in April, YOY basis. The inflation rate was also at or above the upper level of the tolerance band of inflation target in January and February. The CPI headline increased by 0.96% in March and 1.4% in April, MOM basis, reversing the moderate increase or declining pattern seen in the previous three months of December 2021- February 2022, reflecting the increased price pressures, particularly in March and April. The broadening of the inflationary pressure is also seen in the rising rates of the three major components of CPI- food, fuel and miscellaneous. In the case of food, the MOM increase in CPI in March and April were 1.3 and 1.4 per cent, respectively, reversing the declining pattern during December 2021- February 2022. The CPI-Fuel & Light group rose by 3.1 per cent in April (MOM), the highest pace since July 2011. While the inflation rate has been rising since October 2021, in the period since March 2022 its trajectory has been significantly steeper from the previous months.

As the supply side of the economy began to return to some normalcy after the successive waves of the COVID-19 Pandemic, the rising commodity prices in the international markets have remained a major cause of rising input costs in 2021. The sharp increase in the momentum of prices since March is mainly due to the global supply disruptions caused by the Russia-Ukraine war and its aftermath leading to spikes in international commodity prices. In the case of food inflation, the supply interruptions in the international markets on account of both production shortfalls and war induced supply restrictions of edible oils and wheat have exacerbated the emerging supply-demand imbalance. The impact on fertiliser and other input supplies add to the cost of supply across the agricultural sector. Energy prices in general have been affected by supply disruptions and continued demand.

While the domestic monetary and economic policies remained supportive of growth through the pandemic period, achieving sustained growth momentum has been a challenging goal both as a result of the repeated waves of the pandemic and its global impact. At the global level the uncertainty over the timing of the end of the pandemic continues as sudden increase in infections has been reported in a number of countries. The provisional estimates (PE) of estimates GDP released by the National Statistical Office place the GDP growth for 2021-22 at 8.7 per cent reflecting catch-up of private final consumption expenditure, gross fixed capital formation and overall GDP, all measured in constant prices, with the pre-pandemic year 2019-20. The YOY growth of GDP in Q4:FY2021-22 is 4.1 per cent, 6.7 per cent over the previous quarter. In terms of GVA, all the major segments of the economy, agriculture, industry, and services inclusive of construction in 2021-22 exceeded the 2019-20 levels. In the services sector, only segment that includes the contact intensive ‘trade, hotels and transport’ subsectors, the GVA is yet to reach the pre-pandemic level.

More recent data on the economy remains positive on the whole, with broad based indicators such as non-food bank credit, GST collections and toll collections showing significant growth YOY basis up to May 2022. In the case of petrol and diesel consumption, for which data are available up to April 2022, YOY growth rate is higher than in the previous month. PMI for manufacturing in May 2022 has remained marginally lower compared to April and in the case of services, PMI has improved in May. The RBI’s enterprise surveys reflect business expectations of higher output/ turnover over the quarters in FY2022-23 particularly in the second half of the year. Merchandise exports in US$ value for April and May 2022 more than doubled compared to the same period 2020-21 and also exceeded the values in the same period in 2019-20. Imports have also increased sharply reflecting growing domestic economic activity. However, there are clearly uncertainties regarding the growth prospects, particularly in view of the emerging adverse global demand conditions with the global output and trade volume growth now expected to be lower in 2022 than in 2021. Sharp tightening of monetary policy in several major advanced economies has also adverse implications for capital flows, financial markets and exchange rate for India. The RBI's Consumer Confidence Survey conducted during May 2-May 11, 2022 in the major urban areas shows weaker optimism in the general economic conditions for one-year ahead, with overall household spending expected to increase due to higher 'essential expenditure', also for one-year ahead.

Taking into account the present trends and projections of major indicators, the real GDP growth YOY basis for FY2022-23 has been retained at 7.2 per cent as projected in April 2022 meeting. As noted above, there are clearly uncertainties, particularly relating to the global macroeconomic conditions. The RBI's Survey of Professional Forecasters conducted during May 2022 has the median forecast of 7.2 per cent for real GDP growth in FY2022-23, YOY basis, declining from 7.5 per cent obtained in March 2022.

Continued growth momentum in Q4:FY2021-22, and the positive trends in the broader indicators of economic activities in the first one or two months of Q1:FY2022-23 suggest that demand conditions are supportive of economic growth in the face of the cost push inflationary pressures that have developed.

The projected headline inflation rate for FY2022-23, YOY basis, has now been revised upwards to 6.7 per cent from 5.7 per cent projected in the April meeting. One of the factors that has led to the upward revision is the increase in average crude oil price for the year also affecting trade balance. The projected quarterly headline inflation rates in FY2022-23 are provided in the MPC resolution for June 2022. Besides the petroleum prices, headline inflation is also significantly affected by food inflation. For the major food commodities, a normal rainfall would moderate the prices, although the international supply conditions for food commodities would be a factor that would affect the course of food price inflation.

In sum, the inflationary pressures that have intensified since March 2022 are expected to remain a concern in FY2022-23 unless the international supply conditions improve quickly. Changing the course of inflation trajectory to reach targeted level is a priority at this stage for monetary policy although the growth momentum remains modest one. Monetary policy tightening has begun in a number of economies globally to rein in inflationary pressures. Fiscal measures to contain the impact of international price spikes to the domestic consumer and measures to improve supply expansion would moderate price pressures. The RBI moved to streamline the LAF corridor in April 2022, with SDF as the floor and restoring the width of the corridor at the pre-pandemic level. The MPC raised the policy Repo rate by 40 basis points in its meeting held in May and RBI also announced an increase in CRR by 50 basis points. In view of the elevated levels of inflation rates which may persist given the disruptions international supply chains are experiencing, there is a need to ensure that policy rates are consistent with the requirements of moderating inflation expectations and liquidity conditions are consistent with the requirements of economic growth in an environment less constrained by the COVID pandemic. While the impact of these measures is likely to have some adverse impact on aggregate demand in the short term, moderating inflation pressures now is crucial to ensure a stable macroeconomic environment.

Section 45-ZA of the RBI Act, 1934 requires that the Central Government shall, in consultation with the Reserve Bank, determine the inflation target in terms of CPI once in every five years. The Department would support the operationalisation of the mandated inflation target for the 5-year period (2021-26) with high quality analysis/outlook on inflation and growth, alternative policy scenarios and liquidity assessment. Against this backdrop, the Department would undertake the following:

- Strengthen nowcasts of food inflation using customised Agmarknet data sourced from Ministry of Agriculture and Farmers Welfare;
- Understand the common and idiosyncratic components of inflation for a better grasp of underlying inflation;
- Upgrade GDP nowcasting and forecasting framework using high-frequency data;
- Implement the augmented and recalibrated QPM to generate medium-term forecasts and risk assessment (Utkarsh);
- Refine liquidity forecasting and explore additional tools for liquidity management during 2021-22 and evaluate the Reserve Bank’s liquidity measures on financial markets using event study method;
- Examine the behaviour of credit cycles in India; and
- Improve data management by a complete migration of submission of returns on sectoral credit, CRR and SLR maintenance by SCBs, interest rates on bank deposits and loans to XBRL reporting format.

CONCLUSION

Monetary policy in 2020-21 had to deal with the twin challenge of reviving growth from the ravages of COVID-19 while also ensuring that inflation eased from above the upper tolerance band to align with the target. A range of conventional and unconventional monetary, and liquidity measures ensured adequate surplus systemic liquidity to address COVID-19 related stress in the financial markets and were successful in ensuring a significant softening of interest rates across the spectrum and narrowing of risk spreads to pre-COVID levels and facilitated large flows through the corporate bond market. Transmission to banks' deposit and lending rates improved significantly on the back of surplus liquidity conditions and the mandated external benchmark system of the pricing of loans for specified sectors.

The pace of economic recovery in 2020-21 turned out to be faster than earlier anticipations. Yet the outlook is weighed down by several uncertainties, and would depend upon the evolving trajectory of COVID-19 infections and vaccinations. A durable recovery will be dependent on continued policy support. Inflation remains a key concern and constrains monetary policy from using the space available to act in support of growth. Further efforts are necessary to mitigate supply-side driven inflation pressures. Monetary policy will monitor closely all threats to price stability to anchor broader macroeconomic and financial stability while continuing with the accommodative stance.

The war in Europe is lingering. The end of war and sanctions are nowhere in sight. The uncertainty continues. Global growth and trade are steadily decelerating, global commodity prices remain firm and financial markets worldwide are turning more volatile. Monetary policy normalisation has become the order of the day across most central banks. The war has globalised inflationary pressures across geographies, and there are increasing risks of long-term inflation expectations getting unanchored. While prices of a few commodities – such as metals and fertilisers – have seen some softening, most food and all energy prices remain elevated.

Against this background, the domestic CPI inflation for April 2022 surged to 7.8 per cent – the fourth consecutive month of inflation being above the upper tolerance level of 6.0 per cent. Adverse spillovers from high global commodity prices continue to impinge on domestic prices in April and thereafter. Domestic factors also played a role, with a strong heat wave and consequent loss of production resulting in significant pick-up in prices of several food items. According to our latest assessment, the average annual inflation in the current year (2022-23) is expected to be 6.7 per cent, with the first three quarters remaining above six per cent.

Growth impulses, on the other hand, are broadly evolving in line with expectations as borne out by the available high-frequency indicators during April-May 2022. The forecast of a normal southwest monsoon, the improvement in employment conditions as reflected in the rates of labour force participation (LFP) and employment, the early results from RBI surveys indicating steady rise in capacity utilisation and improving non-food credit growth augur well for the growth outlook. Together, these developments can be expected to support private consumption and investment. Net household financial savings (HFS) in 2021-22, although moderating from the preceding year, remained above pre-pandemic levels and along with healthy balance sheets of banks and corporates, can support private consumption and investment. Merchandise exports clocked double-digit growth for the fifteenth successive month in May 2022, despite heightened global uncertainty. In the wake of all these developments, the projection of growth for 2022-23 has been retained at 7.2 per cent, the same as in the April MPC resolution.

Thus, while high inflation continues to be the major concern, revival of economic activity remains steady and is gaining traction. The time is appropriate to go for a further increase in the policy rate to effectively deal with inflation and inflation expectations.

Hence, there is a significant change in the policy rates of Reserve Bank of India, due to which monetary (money) supply in the economy varies for the maintaining the price stability while keeping in the mind the objective of growth.

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