



MPC Meeting: A Balanced Policy Approach

Brickwork Ratings, Bengaluru, 30 September 2022: The statement of the Monetary Policy Committee (MPC) announced today by the Governor of the Reserve Bank of India (RBI) is in line with the BWR expectations. The MPC has decided to increase the policy repo rate by 50 basis points to 5.9% with immediate effect in a 5-1 decision. The stance of the MPC remains unchanged, continuing with the calibrated withdrawal of accommodation.

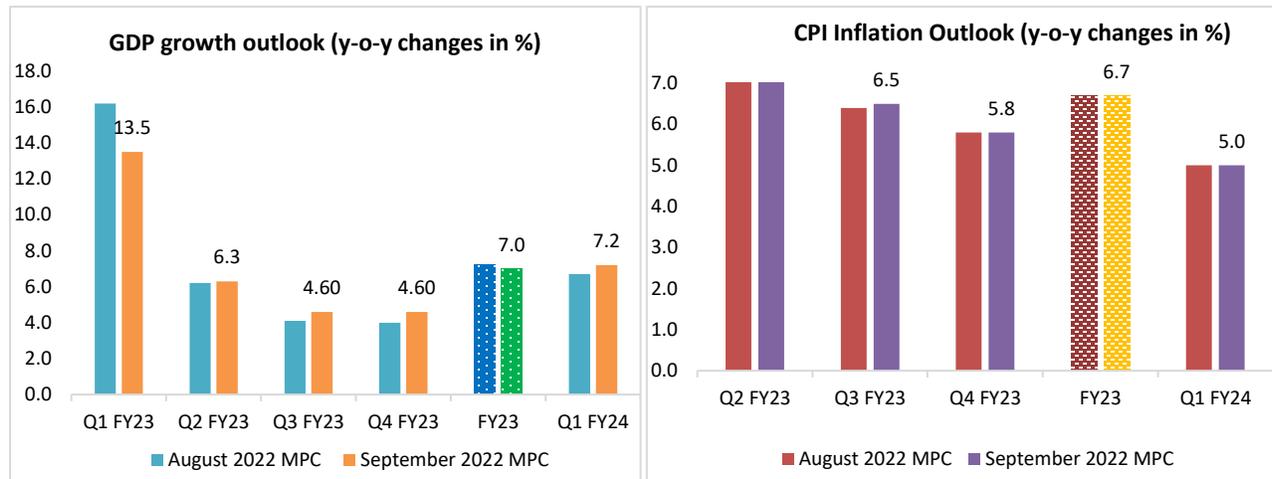
Key Takeaways from RBI Governor's Statement

- The repo rate has been increased by 50 bps to 5.9%, the Standing Deposit Facility (SDF) rate stands adjusted to 5.65% and the Marginal Standing Facility (MSF) rate and bank rate have been increased to 6.15%.
- The MPC members decided to increase the repo rate with 4-1 votes.
- The overall monetary and liquidity conditions remained accommodative and hence, the MPC decided to remain focused on withdrawal of accommodation.
- RBI has decided to merge the 28-day Variable Rate Reverse Repo (VRRR) with the 14-day main auction, in view of the moderation in surplus liquidity. Drawdown of excess Cash Reserve Ratio (CRR), and excess Statutory Liquidity Ratio (SLR) holdings of banks to augment system liquidity.
- RBI maintained the inflation outlook for FY23 at 6.7%.
- The GDP growth outlook for FY23 revised downwards to 7% from 7.2% estimated earlier, while for Q2, Q3 and Q4FY23, the outlook has been increased marginally. The GDP outlook for Q1FY24 increased to 7.2% from the earlier estimate of 6.7%.

Regulatory Measures Announced by the RBI

- Discussion Paper on Expected Loss Based Approach for Loan Loss Provisioning by Banks: The move is a step towards converging with globally accepted prudential norms. This would make the provisions based on an assessment of probable losses with an expected loss-based approach.
- Discussion Paper on Securitisation of Stressed Assets Framework (SSAF): The decision to introduce a framework for securitisation of stressed assets will provide an alternative mechanism for securitisation of NPAs, in addition to the existing ARC route.
- Internet Banking Facility for Customers of Regional Rural Banks (RRBs): The move will promote the spread of digital banking in rural areas.
- Regulating Offline Payment Aggregators (PAs): The measure is expected to bring in synergy in regulation covering activities and operations of PAs apart from convergence on standards of data collection and storage.

Growth Outlook Moderated, Inflation Outlook Remain Unchanged



Source: RBI's Monetary Policy Statements

In the policy statement, the FY23 growth outlook has been revised downwards to 7.0% from 7.2%, which is in line with BWR's expectations. While, the H2FY23 and Q1FY24 growth outlook has been revised upwards, as most of the high frequency indicators are showing revival. Pick up in private consumption and expectations of a sustained revival in urban demand which is likely to further improve with the upcoming festival season hold key to these projections. The growth for Q1FY24 is also projected upwards at 7.2%, which signifies the resilience of the domestic economy. However, the RBI has cautioned that the headwinds from extended geopolitical tensions, tightening global financial conditions, and a possible decline in the external component of aggregate demand can pose downside risks to the growth estimate.

On the inflation front, the outlook for FY23 has remained unchanged at 6.7% projected in the June meeting. Although global geopolitical developments are weighing heavily on the domestic inflation trajectory, fall in crude oil prices has helped in easing the pressure on imported inflation. In addition, with the expectations of higher Rabi output, the food inflation may ease to some extent in H2FY23. However, there is a fear of higher food prices in the near term due to the expectation of lower Kharif paddy production. Hence, the RBI has continued to maintain the inflation estimate above the upper tolerance level in Q2 and Q3.



Says Dr M Govinda Rao, Chief Economic Advisor, Brickwork Ratings, “The decision of the RBI’s MPC to raise the repo rate by 50 basis points to 5.9% is in line with BWR expectations. The growth and inflation outlook provided by RBI, also are in with our expectations. The balanced approach of the MPC to maintain stability and to control inflation has continued, with no major change in its policy stance. There is a sense of assurance on the liquidity management front by RBI with reasonably settled measures. In addition to merging the 28-day VRRR with the 14-day main auction, to improve the liquidity conditions, RBI has assured that the drawdown of excess CRR and SLR holdings of banks could also augment system liquidity. Overall, the focus of RBI MPC continues to bring down inflation within the target range. It has clearly mentioned in the statement that monetary policy has to carry forward its calibrated action on policy rates and liquidity conditions consistent with the evolving inflation growth dynamics. It must remain alert and nimble. We expect further increase in policy rates in the next policy meeting depending on the behaviour of the prices, and announcement of appropriate liquidity enhancing measures for a sound financial system”.

Says Rajee R, Chief Ratings Officer, Brickwork Ratings, “RBI continued its focus on price stability and withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. Accordingly, the policy repo rate was increased by 50 bps to 5.90% with immediate effect. The reduction in FY23 GDP growth forecast to 7.00% was on expected lines given the various global headwinds like geopolitical tensions, actions of central banks of advanced economies impacting global liquidity and possible decline in export demand. Retention of FY23 inflation projection at 6.70% factors the steps taken by RBI in recent quarters and recent moderation in global commodity prices. Although RBI has merged 28-days VRRR with 14-days VRRR, it has assured that injection of liquidity would continue as and when needed. Discussion paper on proposed transition from Incurred Loss based approach to Expected Loss based approach for loan loss provisioning by banks will help Indian banking norms to merge with globally accepted prudential norms. Discussion Paper on Securitisation of Stressed Assets Framework (SSAF) is a step in the right direction as it seeks to provide an alternative mechanism for securitisation of NPAs, in addition to the existing ARC route. Proposed rationalization of norms of internet banking for customers of Regional Rural Banks (RRBs) will help the spread of digital banking in rural areas”.



Contacts:

Dr M Govinda Rao

Chief Economic Adviser

Anita Shetty

Senior Research Analyst

Rajee R

Chief Ratings Officer

Investors & Media Contact

+91 95133 99706

1-860-425-2742

investordesk@brickworkratings.com

media@brickworkratings.com



ABOUT BRICKWORK RATINGS

Brickwork Ratings (BWR) is India's home-grown credit rating agency built with the superior analytical prowess of the industry's most experienced credit analysts, bankers and regulators. Established in 2007, BWR aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. BWR provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. BWR has employed over 339 working professionals including credit analysts and credit market professionals across 8 offices in India. Our experienced analysts have published over 13,142 ratings across asset classes. BWR is committed to providing the investment community with products and services needed to make informed investment decisions. BWR is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Agency (ECAI) by the Reserve Bank of India (RBI) to carry out credit ratings in India. BWR is promoted by Canara Bank, India's leading public sector bank. More information on Canara Bank is available for reference at www.canarabank.com

BWR Rating Criteria are available at <https://www.brickworkratings.com/ratingscriteria.aspx>

Brickwork Ratings, a SEBI-registered credit rating agency, has also been accredited by the RBI, and it offers rating services for bank loan, NCD, commercial paper, bonds, securitised paper etc. BWR has Canara Bank, a nationalised bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence, with offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi, along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitised paper of over ₹ 18,98,067 Cr. Additionally, fixed deposits and commercial papers, among others, worth over ₹ 83,555 Cr have been rated.

DISCLAIMER

Copyright ©2022 by Brickwork Ratings India Pvt Ltd., 3rd Floor, Raj Alkaa Park, 29/3 & 32/2, Bannerghatta Main Rd, Kalena Agrahara, Bengaluru, Karnataka 560076. Telephone: +91 80 4040 9940. Fax: +91 80 4040 9941. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Brickwork Ratings relies on factual information it receives from issuers and underwriters and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Brickwork Ratings' factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Brickwork Ratings' ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering documents and other reports. In issuing its ratings Brickwork Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

THE INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY KIND. A Brickwork Ratings rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time, for any reason in the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Neither Brickwork Ratings nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "BWR Reps") guarantee the accuracy, completeness or adequacy of the Report, and no BWR Reps shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of this publication. In no event shall any BWR Reps be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages. Brickwork Ratings receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.