

**RESEARCH**
**BOB ECONOMICS RESEARCH | MONETARY POLICY**

No surprises: Another 25bps rate hike possibly in Feb and then pause

**SUMMARY**
**INDIA ECONOMICS: MONETARY POLICY**

RBI's policy remains in line with expectation. A rate hike of 35bps materialized and the stance of withdrawal of accommodation has been retained. However, cautiousness prevailed with regard to anchoring of inflation expectations and the policy tone reflected need to be mindful of future inflationary shocks even though inflation forecast was unchanged at 6.7% for FY23. On liquidity management, RBI is expected to be 'nimble and flexible' in its approach.

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**Daily macro indicators**

Indicator	05-Dec	06-Dec	Chg (%)
US 10Y yield (%)	3.57	3.53	(4bps)
India 10Y yield (%)	7.23	7.25	2bps
USD/INR	81.80	82.61	(1.0)
Brent Crude (US\$/bbl)	82.7	79.4	(4.0)
Dow	33,947	33,596	(1.0)
Hang Seng	19,518	19,441	(0.4)
Sensex	62,835	62,626	(0.3)
India FII (US\$ mn)	02-Dec	05-Dec	Chg (\$ mn)
FII-D	109.4	18.2	(91.2)
FII-E	46.1	(109.6)	(155.7)

Source: Bank of Baroda Economics Research



## MONETARY POLICY

07 December 2022

### No surprises: Another 25bps rate hike possibly in Feb and then pause

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**Dipanwita Mazumdar**  
Economist

Going forward we expect, some comfort to CPI print emanating from favourable base. Even Rabi crop would get relief from good North East monsoon and adequate reservoir levels. However, wariness should prevail with regard to reversal of seasonality decline in tomato and potato prices. Demand pressure still persists as visible in resilient services activity which will tend to push up prices. Thus, our CPI forecast for FY23 stands a tad higher at 6.8% compared to RBI's estimate of 6.7% while our growth projection stand in line with RBI forecast. We expect terminal repo at 6.5% with another 25bps hike in its Feb policy and thereafter a pause. 1Y OIS curve is also trading above 6.5%

#### Key Highlights:

- As per our expectations and in line with market consensus, RBI raised policy repo rate by 35bps, with stance continuing to be 'withdrawal of accommodation'.
- However, one important statement which has been added in the current policy is that 'inflation adjusted' policy rate still remains accommodative.
- Inflation forecast for FY23, retained at 6.7% and growth projection revised slightly lower to 6.8% from 7% earlier.
- Liquidity to get comfort from RBI's fine tuning operation. But RBI also highlighted that 'market participants must wean themselves away from the overhang of liquidity surpluses', which might be indicative of liquidity remaining in slight deficit mode.

GDP growth revised downward: RBI has revised GDP growth for FY23 downward by 20bps to 6.8%. Even Q3, Q4 and Q1FY24 trajectory underwent downward revision between 20-40bps. Despite resilient domestic activity, the downward revision was primarily on account of adverse global growth spillover, from which India might not be insulated for long. However, RBI has pointed out that India's growth stands strong in the current headwinds amidst growing consumer confidence, government's thrust on capital spending and resilience in services activity. We also believe that the pent up demand scene which has helped growth will tend to get diluted with inflation affecting spending power going ahead.



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**Note:** Recommendation structure changed with effect from 21 June 2021

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