

MPC minutes: Inflation and non-inflationary growth finds priority

MPC minutes reiterated policy statement which prioritized inflation over growth, a first since February 2019. Notably, members believe that inflation outlook changed significantly since the February policy on the back of conflict in Russia. Cost push inflation will be visible not only in manufactured products but also in food by way of higher input costs. On growth, members believe economic momentum is gaining traction and conflict will impinge on growth. However, members are looking at non-inflationary growth. The way forward is 1) gradual withdrawal of liquidity and removal of pre-pandemic measures by April 2023, and 2) moving from negative real rates to neutral non-inflationary rate. We believe this calls for repo rate hikes to begin from June policy itself with back-to-back hikes of 25bps taking terminal rate to 6%.

Inflation finds prominence, rightly so: Members acknowledged inflation outlook has changed significantly since the last meeting. RBI Governor, Shri Das, attributed as much as 60% of increase in inflation projection to oil prices and remaining to food prices. Members also acknowledged that inflation is likely to remain above RBI's tolerance level in the near-term. Dr Patra believes worst fears on inflation are materializing. In Dr Saggars opinion supply disruptions from the war may last at least a year. He expects core inflation to remain above 6% through FY23. Even food inflation may remain on the higher side despite a normal monsoon on the back of elevated input costs. Given the structural shifts underway in the form of deglobalisation, it may leave permanent shifts in inflation trajectory. On balance, we expect inflation at 6.2% in FY23, higher than RBI's estimate of 5.7%. Notably, this also implies inflation remaining above 6% throughout FY23.

Growth momentum improving: MPC members believe growth momentum is improving. Higher mobility should drive a sustained recovery in activity even as corporate margins are squeezed for now. According to Dr Saggars, high frequency indicators since December 2021 have been seeing a MoM improvement. Output has recovered to the pre-pandemic level. Notably, he alluded to the fact that monetary policy should focus on non-inflationary growth going forward. Even Dr. Bhide agreed with the assessment that indicators are pointing towards an on-going recovery. However, uncertainty has increased going forward. Members also acknowledged that conflict in Europe will drag global growth lower. We expect GDP growth at 7.4% in FY23 as against RBI's estimate of 7.2% with downside risk to growth emanating from external shocks and monetary tightening by the US Fed. At the same time, we believe higher food inflation and normal monsoon should drive higher incomes for rural India.

Real rates, liquidity and repo hikes: First on real rates. Dr Goyal said real rate has fallen further and is now too negative. She also alluded to moving towards neutral real rates consistent with non-inflationary growth. Dr Saggars believes negative real rates will impinge on savings and accentuate CAD. Second on OMOs, Dr Goyal said that a BoP deficit will give RBI room to support government borrowing consistent with required growth in reserve money. Third, on liquidity, members agreed that RBI has already been reducing the extent of liquidity in the system. Out of the pandemic related liquidity overhang, INR 2.9tn has been withdrawn, according to Dr Patra. Open market sales and forex operations have led to withdrawal of liquidity of INR 2.3tn. More importantly, he is of the opinion that during the course of FY23 and up to April 2023, all pandemic related extraordinary measures will cease.

Given current assessment on growth and inflation, we expect RBI to raise repo rate in June meeting. We also expect back-to-back increase in repo rate of 25bps to take the terminal rate to 6%. A decline in global oil prices is a risk to our view. At the same time, an upward momentum in oil prices may call for front-loading of rate hikes.

Sameer Narang

sameer.narang@icicibank.com

Sudarshan Bhattacharjee

sudarshan.bhattacharjee@icicibank.com

Kaushal Aryan

kaushalkumar.aryan@icicibank.com

22 April 2022

Please see important disclaimer at the end of this report

Economic Research Group			
Economics Research			
Sameer Narang	Head-Economic Research Group	(+91-22) 4008-1414 (ext. 6280)	sameer.narang@icicibank.com
Shivom Chakravarti	Senior Economist - Global Markets	(+91-22) 4008-1414 (ext. 6273)	shivom.chakravarti@icicibank.com
Dr.Sudarshan Bhattacharjee	Senior Economist - Domestic Markets	(+91-22) 4008-1414 (ext. 6708)	sudarshan.bhattacharjee@icicibank.com
Debomitra Sen	Research analyst	(+91-22) 4008-1414 (ext. 8161)	debomitra.sen@icicibank.com
Kaushalkumar Aryan	Research Analyst	(+91-22) 2653-1414 (ext. 7249)	kaushalkumar.aryan@icicibank.com
Aniket Gaikwad	Research Analyst	(+91-22) 2653-1414 (ext. 8161)	aniket.gaikwad@icicibank.com
Asha Sasikumar	Research Analyst	(+91-22) 2653-1414 (ext. 8161)	asha.sasikumar@icicibank.com
Jyoti Sharma	Research Analyst	(+91-22) 2653-1414 (ext. 7249)	sharma.jyoti@icicibank.com
Tanisha Ladha	Research Analyst	(+91-22) 2653-1414 (ext. 7309)	tanisha.ladha@icicibank.com
Nihal Kumar	Research Analyst	(+91-22) 2653-1414 (ext. 7309)	nihal.kumar@icicibank.com
Aditya Sharma	Research Analyst	(+91-22) 2653-1414 (ext. 7309)	sharma.adi@icicibank.com

Treasury Desks			
Treasury Sales	(+91-22) 6188-5000	Currency Desk	(+91-22) 2652-3228-33
Gsec Desk	(+91-22) 2653-1001-05	FX Derivatives	(+91-22) 2653-8941/43
Interest Rate Derivatives	(+91-22) 2653-1011-15	Commodities Desk	(+91-22) 2653-1037-42
Corporate Bonds	(+91-22) 2653-7242		

Disclaimer

This document is issued solely by ICICI Bank Limited (“**ICICI Bank**”) Any information in this email should not be construed as an offer, invitation, solicitation, solution or advice of any kind to buy or sell any securities, financial products or services offered by ICICI Bank) or any other entity, unless specifically stated so. The contents of this document do not take into account your personal circumstances. Before entering into any transaction, you should take steps to ensure that you understand the transaction and have made an independent assessment of the appropriateness of the transaction in light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction and should seek your own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities. ICICI Bank (including its branches, affiliates of ICICI Bank) do not provide any financial advice, and is not your fiduciary or agent, in relation to the securities or any proposed transaction with you unless otherwise expressly agreed by us in writing.

The information, opinions and material in this document (i) are derived from sources that ICICI Bank believes to be reliable but the reliability or accuracy of which have not been independently verified (ii) are given as part of ICICI Bank’s internal research activity and not as manager of or adviser in relation to any assets or investments and no consideration has been given to the particular needs of any recipient; and (iii) may contain forward looking statements, which may be materially affected by various risk, uncertainties and other factors. The opinions contained in such material constitute the judgment of ICICI Bank in relation to the matters which are the subject of such material as at the date of its publication, all of which are expressed without any responsibility on ICICI Bank’s part and are subject to change without notice. ICICI Bank has no duty to update this document, the opinions, factual or analytical data contained herein. ICICI Bank and/or its affiliates makes no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. The recipient of the information should take necessary steps as they deem necessary prior to placing reliance upon it. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities or financial products/ instruments of any entity.

This document is intended solely for customers of ICICI Bank and may contain proprietary, confidential or legally privileged information. No part of this report may be copied, disseminated or redistributed by any recipient for any purpose without ICICI Bank’s prior written consent. If the reader of this message is not the intended recipient and has received this transmission in error, please immediately notify ICICI Bank, Economic Research Group, E-mail: erg@icicibank.com or by

telephone at +91-22-2653-7233 and delete this message from your system.

Please also note that ICICI Bank (including its branches, and affiliates) is unable to exercise control or ensure or guarantee the integrity of/over the contents of the information contained in e-mail transmissions and / or attachments and that any views expressed in this e-mail and / or attachments are not endorsed by/binding on ICICI Bank. Before opening any attachments please check them for viruses and defects and please note that ICICI Bank accepts no liability or responsibility for any damage caused by any virus that may be transmitted by this email and/ or attachments thereto.

DISCLAIMER FOR DUBAI INTERNATIONAL FINANCIAL CENTRE (“DIFC”) CLIENTS:

This marketing material is distributed by ICICI Bank Limited., Dubai International Financial Centre (DIFC) Branch, a category 1 Authorized Firm and regulated by the Dubai Financial Services Authority. This marketing material is intended to be issued, distributed and/or offered to a limited number of investors who qualify as ‘Professional Clients’ pursuant to Rule 2.3.3 of the DFSA Conduct of Business Rulebook, or where applicable a Market Counterparty only, and should not be referred to or relied upon by Retail Clients and must not be relied upon by any person other than the original recipients and/or reproduced or used for any other purpose.

DISCLOSURE FOR RESIDENTS IN THE UNITED ARAB EMIRATES (“UAE”):

Investors should note that any products mentioned in this document, any offering material related thereto and any interests therein have not been approved or licensed by the UAE Central Bank or by any other relevant licensing authority in the UAE, and they do not constitute a public offer of products in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

DISCLOSURE FOR RESIDENTS IN HONGKONG

This document has been issued by ICICI Bank Limited in the conduct of its Hong Kong regulated business (i.e. type 1 license) for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571 of Laws of Hong Kong) (the “SFO”)) customers; it is not intended for and should not be distributed to retail or individual investors in Hong Kong. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document has not been reviewed, authorized or approved by any regulatory authority.

ICICI Bank and/or its affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. As a result, you should be aware that a conflict of interest may exist. In accordance with the regulatory requirements and its own conflicts of interest policies, ICICI Bank has in place arrangements, internal policies and procedures to manage conflicts of interest that arise between itself and its clients and between its different clients. Where it does not consider that the arrangements under its conflicts of interest policies are sufficient to manage a particular conflict, it will inform you of the nature of the conflict so that you can decide how to proceed.

DISCLOSURE FOR RESIDENTS IN SINGAPORE

ICICI Bank Limited, India (“**ICICI India**”) is incorporated under the laws of India and is regulated by the Reserve Bank of India. ICICI Bank Limited, Singapore branch (“**ICICI**”) is regulated by the Monetary Authority of Singapore.

As mentioned, ICICI India is regulated by the Reserve Bank of India. Hence, in relation to your dealing with ICICI India, you understand that your interest will be subject to protection of local laws and regulations in India, which may offer different or diminished protection than available under Singapore laws and regulations. You also understand that the Monetary Authority of Singapore will be unable to compel the enforcement of the rules of the local regulators.

For more detailed disclaimer, please visit <https://www.icicibank.com/disclaimer/disclaimertnc.html>