RBI Policy – Aug 2023 – Key Takeaways

RBI Monetary Policy

Repo Rate Now at 6.50% v/s 6.50%	**Unchanged**
Standing Deposit Facility Now at 6.25% v/s 6.25%	**Unchanged**
MSF Bank Rate Now at 6.75% v/s 6.75%	**Unchanged**
Policy Stance Withdrawal	**Continues**
CRR At 4.5%	**Unchanged**

RBI on Growth, Inflation

FY24 GDP Growth	**Projected at 6.5%**
FY24 Inflation Outlook	**Raised at 5.4% v/s 5.1% in Jun'23**

- **Pause continues –** RBI has opted to maintain the repo rate at 6.5% as expected, focusing on the **withdrawal of accommodation** to make sure that inflation continues to be within the goal going forward while supporting growth. These actions are consistent with the goal of attaining the medium-term **CPI inflation target of 4%** within a +/- 2% range.
- **Domestic Demand –** Domestic economic activity is maintaining resilience. The cumulative south-west monsoon rainfall was the same as the long period average up to August 9, 2023, although the temporal and spatial distribution has been uneven. The total area sown under kharif crops was 0.4 per cent higher than a year ago as on August 4, 2023. The index of industrial production (IIP) expanded by 5.2 per cent in May while core industries' output rose by 8.2 per cent in June. Amongst high frequency indicators, e-way bills and toll collections expanded robustly in June-July, while rail freight and port traffic recovered in July after remaining muted in June. The composite purchasing managers' index **(PMI) rose to a 13-year high in July**. Urban demand remains robust, with domestic air passenger traffic and household credit exhibiting sustained double-digit growth. **Cement output and steel usage both increased significantly**. The import and manufacturing of capital goods continued to expand. In June, merchandise exports and non-oil non-gold imports remained in contraction territory. **Services exports grew slowly due to weakening foreign demand.**
- **Global factors –** Global economic growth is slowing, and growth trajectories are diverging across regions, despite moderating but above-target inflation, tight financial conditions, simmering geopolitical conflicts, and geoeconomic fragmentation. The yields on sovereign bonds have hardened. The **US dollar fell to a 15-month low in mid-Jul'23** on anticipation of an early conclusion to the monetary tightening cycle, but it soon recovered some of its losses. Expectations of a soft landing for the global economy have boosted equity markets. Weak external demand, high debt levels, and tight external funding conditions all pose challenges to the economic prospects of some emerging market economies.
- **On Inflation – Headline CPI inflation increased from 4.3% in May to 4.8% in June**, owing mostly to food group dynamics, including higher costs for vegetables, eggs, meat, fish, cereals, pulses, and spices. Fuel inflation slowed in May and June, owing mostly to a drop in kerosene costs. Core inflation (i.e., CPI excluding food and fuel) was steady in June.
- **Liquidity and Financial Market Conditions**- Daily liquidity absorption under the LAF averaged 1.8 lakh crore in June-July, up from 1.7 lakh crore in April-May. Money supply (M3) increased by 10.6% year on year on July 28, 2023, compared to 10.1% on May 19, 2023. **Bank credit increased by 14.7%** year on year as of July 28, 2023, compared to 15.4% on May 19, 2023. As of August 4, 2023, India's foreign exchange **reserves amounted at US$ 601.5 billion**.
- **Banks to maintain 10% incremental CRR from August 12 -** Central bank considered **imposition of ICRR** (To drain access liquidity from the banking system following the withdrawal of the ₹ 2000 currency notes) desirable in interest of financial and price stability and banks will have enough liquidity to do their lending operations. The incremental CRR was considered necessary in the background of the liquidity overhang. It is a purely temporary measure.
- **Outlook –** Going forward, the spike in vegetable prices, led by tomatoes, is likely to correct with fresh market arrivals. However, the impact of the uneven rainfall distribution warrants careful monitoring. In the near future, the rebound in kharif sowing and rural earnings, as well as the buoyancy in services and consumer optimism, should sustain household consumption. Healthy bank and corporate balance sheets, supply chain normalisation, business confidence, and solid government capital spending are all favorable for a revival of the capex cycle, which is beginning to broaden. However, threats to the forecast include sluggish global demand, instability in global financial markets, geopolitical tensions, and geoeconomic fragmentation.
- **Other Key Takeaways:**
  - Conversational Payments and Off-line Capability on UPI; Enhancement in Transaction Limit of Small Value Off-line Digital Payments
  - Frictionless credit delivery through end-to-end digital processes, starting with Kisan Credit Card (KCC) loans.
  - Review of Regulatory Framework for Infrastructure Debt Fund - NBFCs
  - Consolidation and Harmonisation of Instructions for Supervisory Data Submission

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