

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Aug 10, 2023 announced that the central bank has decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 percent. The standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, 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.

Outlook:

Going forward, the spike in vegetable prices, led by tomatoes, would exert sizeable upside pressures on the near-term headline inflation trajectory. This jump is, however, likely to correct with fresh market arrivals. There has been significant improvement in the progress of the monsoon and kharif sowing in July; however, the impact of the uneven rainfall distribution warrants careful monitoring. Crude oil prices have firmed up amidst production cuts. Manufacturing, services and infrastructure firms polled in the Reserve Bank's enterprise surveys expect input costs to ease but output prices to harden. Taking into account these factors and assuming a normal monsoon, CPI inflation is projected at 5.4 per cent for 2023-24, with Q2 at 6.2 per cent, Q3 at 5.7 per cent and Q4 at 5.2 per cent, with risks evenly balanced. CPI inflation for Q1:2024-25 is projected at 5.2 per cent.

Looking ahead, the recovery in kharif sowing and rural incomes, the buoyancy in services and consumer optimism should support household consumption. Healthy balance sheets of banks and corporates, supply chain normalisation, business optimism and robust government capital expenditure are favourable for a renewal of the capex cycle which is showing signs of getting broad-based. Headwinds from weak global demand, volatility in global financial markets, geopolitical tensions and geoeconomic fragmentation, however, pose risks to the outlook. Taking all these factors into consideration, real GDP growth for 2023-24 is projected at 6.5 per cent with Q1 at 8.0 per cent; Q2 at 6.5 per cent; Q3 at 6.0 per cent; and Q4 at 5.7 per cent, with risks broadly balanced. Real GDP growth for Q1:2024-25 is projected at 6.6 per cent.

Policy Rates								
Y-O-Y Growth (%)	Jan-23	Feb-23	Mar-23	Apr-23	May-23	June-23	Jul-23	Aug-23
Repo	6.25%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
CRR	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Inflation								
Y-O-Y Growth (%)	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	June-23
Inflation (WPI)	5.85%	4.95%	4.80%	3.85%	1.41%	-0.79%	-3.48%	-4.12%
Inflation (CPI)	5.88%	5.72%	6.52%	6.44%	5.66%	4.70%	4.31%	4.81%
GDP Growth								
Y-O-Y Growth (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
GDP (% Growth)	21.55%	9.11%	5.20%	4.09%	13.19%	6.28%	4.36%	6.95%
GVA (% Growth)	20.25%	9.33%	4.74%	3.89%	12.06%	5.48%	4.60%	7.29%

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