

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Dec 8, 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 to 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:

Global growth is slowing at a divergent pace across economies. Inflation continues to ebb though it remains above target with underlying inflationary pressures staying relatively stubborn. Market sentiments have improved since the last MPC meeting – sovereign bond yields have declined, the US dollar has depreciated, and global equity markets have strengthened. Emerging market economies (EMEs) continue to face volatile capital flows. Domestic economic activity is exhibiting resilience. Real gross domestic product (GDP) grew year-on-year (y-o-y) by 7.6 per cent in Q2:2023-24, underpinned by robust investment and government consumption, which cushioned the drag from net external demand. On the supply side, gross value added (GVA) rose by 7.4 per cent in Q2, driven by buoyant manufacturing and construction activities.

The MPC observed that recurring food price shocks are impeding the ongoing disinflation process. Core disinflation has been steady, indicative of the impact of past monetary policy actions. Headline inflation, however, remains volatile, with possible implications for the anchoring of expectations. Domestic food inflation unpredictability, and volatility in crude oil prices and financial markets in an uncertain international environment pose risks to the inflation outlook. The path of disinflation needs to be sustained. The MPC will carefully monitor any signs of generalisation of food price pressures which can fritter away the gains in easing of core inflation. On the growth front, improved momentum in investment demand along with business and consumer optimism, would support domestic economic activity and ease supply constraints. As the cumulative policy repo rate hike is still working its way through the economy, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent in this meeting, but with preparedness to undertake appropriate and timely policy actions, should the situation so warrant.

| Policy Rates | | | | | | | | |
|------------------|--------|---------|--------|---------|---------|--------|--------|--------|
| Y-O-Y Growth (%) | May-23 | June-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
| Repo | 6.50% | 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 (%) | Mar-23 | Apr-23 | May-23 | June-23 | July-23 | Aug-23 | Sep-23 | Oct-23 |
| Inflation (WPI) | 1.41% | -0.79% | -3.61% | -4.18% | -1.23% | -0.46% | -0.26% | -0.52% |
| Inflation (CPI) | 5.66% | 4.70% | 4.31% | 4.87% | 7.44% | 6.83% | 5.02% | 4.87% |
| GDP Growth | | | | | | | | |
| Y-O-Y Growth (%) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
| GDP (% Growth) | 5.20% | 3.96% | 13.08% | 6.20% | 4.46% | 6.06% | 7.82% | 7.64% |
| GVA (% Growth) | 4.74% | 3.91% | 11.95% | 5.41% | 4.73% | 6.48% | 7.83% | 7.42% |

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