

Policy Highlights:

Based on an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (June 8, 2023) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent. 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 headline inflation trajectory is likely to be shaped by food price dynamics. Wheat prices could see some correction on robust mandi arrivals and procurement. Milk prices, on the other hand, are likely to remain under pressure due to supply shortfalls and high fodder costs. The forecast of a normal south-west monsoon by the India Meteorological Department (IMD) augurs well for kharif crops; however, the spatial and temporal distribution of the monsoon would need to be closely monitored to assess the prospects for agricultural production. Crude oil prices have eased but the outlook remains uncertain. According to the early results from the Reserve Bank's surveys, manufacturing, services and infrastructure firms polled expect input costs and output prices to harden. A clearer picture will emerge when the final survey results are available. Considering these factors and assuming a normal monsoon, CPI inflation is projected at 5.1 per cent for 2023-24, with Q1 at 4.6 per cent, Q2 at 5.2 per cent, Q3 at 5.4 per cent and Q4 at 5.2 per cent. The risks are evenly balanced.

The higher rabi crop production in 2022-23, the expected normal monsoon, and the sustained buoyancy in services should support private consumption and overall economic activity in the current year. The government's thrust on capital expenditure, moderation in commodity prices and robust credit growth are expected to nurture investment activity. Weak external demand, geoeconomic fragmentation, and protracted geopolitical tensions, however, pose risks to the outlook. Taking all these 4 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 evenly balanced. The cumulative rate hike of 250 basis points undertaken by the MPC is transmitting through the economy and its fuller impact should keep inflationary pressures contained in the coming months. Monetary policy would need to be carefully calibrated for alignment of inflation with the target. Against this backdrop, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent.

Policy Rates									
Y-O-Y Growth (%)	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Repo	5.90%	5.90%	6.25%	6.25%	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%	3.35%
CRR	4.50%	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%	18.00%
Inflation									
Y-O-Y Growth (%)	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Inflation (WPI)	12.48%	10.55%	8.67%	5.85%	4.95%	4.73%	3.85%	1.34%	0.92%
Inflation (CPI)	7.00%	7.41%	6.77%	5.88%	5.72%	6.52%	6.44%	5.66%	4.70%
GDP Growth									
Y-O-Y Growth (%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q423
GDP (% Growth)	2.53%	20.08%	8.40%	5.40%	4.09%	13.51%	6.28%	4.36%	6.10%
GVA (% Growth)	5.70%	18.15%	8.30%	4.71%	3.89%	12.75%	5.48%	4.60%	7.29%

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