

Policy Highlights:

Reserve Bank of India (RBI) Governor Shaktikanta Das on Oct 6, 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:

The near-term inflation outlook is expected to improve on the back of vegetable price correction and the recent reduction in LPG prices. The future trajectory will be conditioned by a number of factors like lower area sown under pulses, dip in reservoir levels, El Niño conditions and volatile global energy and food prices. According to the Reserve Bank's enterprise surveys, manufacturing firms expect higher input cost pressures but marginally lower growth in selling prices in Q3 compared to the previous quarter. Services and infrastructure firms expect a moderation in growth of input costs and selling prices. Taking into account these factors, CPI inflation is projected at 5.4 per cent for 2023-24, with Q2 at 6.4 per cent, Q3 at 5.6 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.

Domestic demand conditions are expected to benefit from the sustained buoyancy in services, revival in rural demand, consumer and business optimism, the government's thrust on capex, and healthy balance sheets of banks and corporates. Headwinds from global factors like geopolitical tensions, volatile financial markets and energy prices, and climate shocks pose risks to the growth outlook. The MPC observed that the unprecedented food price shocks are impinging on the evolving trajectory of inflation and that recurring incidence of such overlapping shocks can impart generalisation and persistence. Accordingly, the MPC resolved to remain on high alert, given the prevailing environment of elevated global food and energy prices and global financial market volatility. While vegetable prices may undergo further correction and core inflation is easing, the MPC noted that headline inflation is ruling above the tolerance band and its alignment with the target is getting interrupted.

Policy Rates								
Y-O-Y Growth (%)	Mar-23	Apr-23	May-23	June-23	Jul-23	Aug-23	Sep-23	Oct-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 (%)	Jan-23	Feb-23	Mar-23	Apr-23	May-23	June-23	July-23	Aug-23
Inflation (WPI)	4.80%	3.85%	1.41%	-0.79%	-3.61%	-4.18%	-1.36%	-0.52%
Inflation (CPI)	6.52%	6.44%	5.66%	4.70%	4.31%	4.87%	7.44%	6.83%
GDP Growth								
Y-O-Y Growth (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
GDP (% Growth)	9.11%	5.20%	4.09%	13.08%	6.20%	4.46%	6.06%	7.80%
GVA (% Growth)	9.33%	4.74%	3.91%	11.94%	5.41%	4.72%	6.48%	7.80%

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